Financial History

The magazine of the Museum of American Finance

New Deal or Raw Deal? Black Americans in the Roosevelt Years

Presidential Impeachment and US Stock Markets

David Dodd: Out of Ben Graham's Shadow

ISSUE 134 | SUMMER 2020

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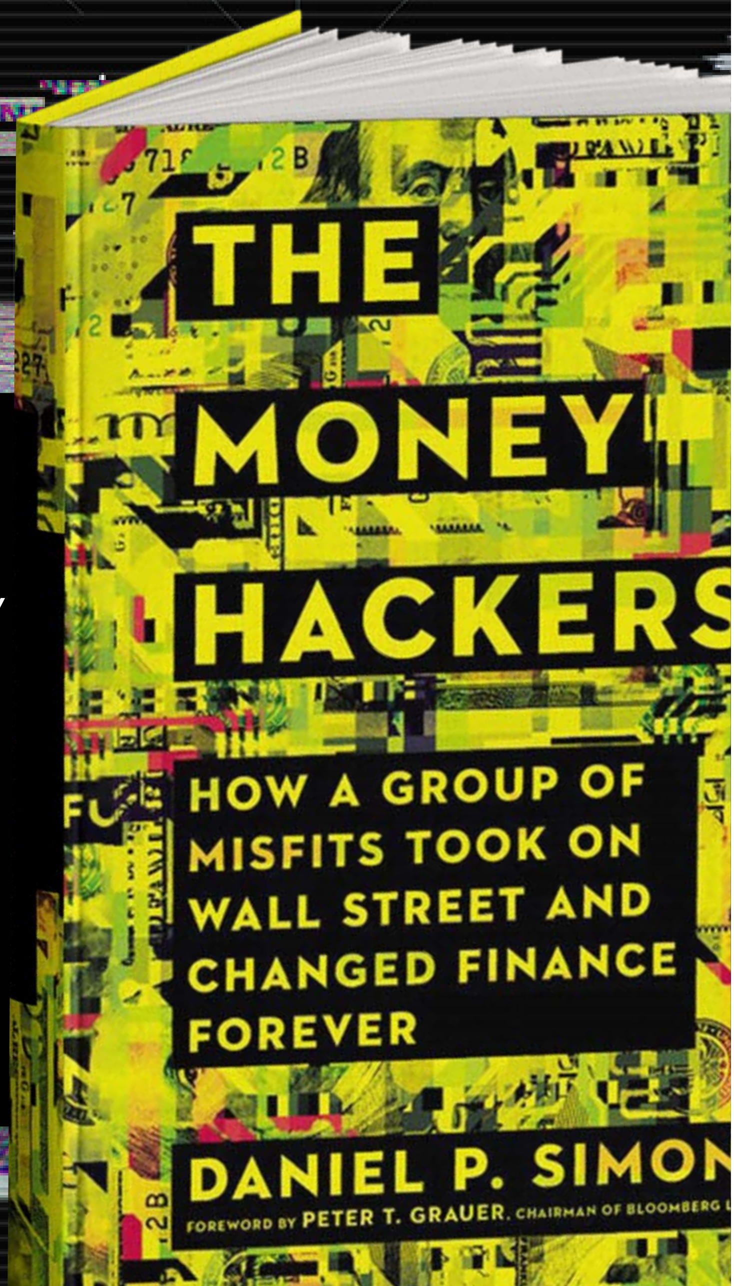

FINANCIAL HISTORY

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IN THIS ISSUE FEATURES

IN THIS ISSUE DEPARTMENTS

ON THE COVER

Top: The Black Cabinet: Federal Racial Affairs Advisers, 1938.

Middle: Sharecropper's children in Montgomery County, Alabama, February 1937. Arthur Rothstein, photographer.

Bottom: Mary McLeod Bethune, Black Cabinet leader and the National Youth Administration's Director of Negro Activities, First Lady Eleanor Roosevelt and NYA Executive Director Aubrey Williams at the opening session of the National Conference on Problems of the Negro and Negro Youth, January 7, 1937.

See related article, page 20.

Top: Scurlock Studio Records, Archives Center, National Museum of American History, Smithsonian Institution

Middle: Library of Congress

Bottom: Bettmann

Museum Participates in Business History Conference Bibliography of Business History and Race

Message to Members

David J. Cowen | President and CEO

By all accounts, 2020 has been a most unusual and challenging year. From the onset of the COVID-19 pandemic early in the year, to the recent wave of racial and social justice campaigns throughout our nation this spring and summer, many of us have never felt as ensconced in living history as we have in 2020.

This spring, several members of our staff and board attended a webinar featuring Lonnie G. Bunch III, Secretary of the Smithsonian Institution. One of his many insightful remarks was that museums today should play an active role in their communities as history unfolds, rather than being places where "history and science go to die." We have taken that advice to heart, launching our "Pandemics & Epidemics: Financial and Economic Effects" online exhibit in June, dedicating the Spring issue of *Financial History* to the exploration of the historical impact of national and global pandemics and featuring numerous programs this summer on various aspects of this subject as well.

Program highlights include veteran CNBC Reporter Bob Pisani and "WealthTrack" Anchor and Executive Producer Consuelo Mack on "The Rally and the Recovery: Where Are We?," economic historian and MoAF Chairman Richard Sylla on "Pandemics & Epidemics: Financial and Economic Effects" and entrepreneur and financial communications expert Dan Simon on "Innovation in Crisis." Videos of most programs become available on our website a few weeks after they are presented.

In addition, I am pleased to announce that several articles from *Financial History* magazine have been accepted for inclusion in the Business History Conference (BHC)'s Open Bibliography of Business History and Race. This crowdsourced bibliography, which launched in July, is a major new collaborative effort to promote published resources that explore the history of business and race on an international scale. This important initiative will help scholars better understand the role that race has historically played in business and economics, and it will help historians identify gaps in this history that need to be filled by additional research. It will also serve as a consolidated resource where students and laypeople interested in history can access hundreds, and potentially thousands, of published works on this subject.

The full bibliography can be found at https://www.zotero.org/groups/2527203/business_history_and_race_a_partial_open_bibliography, and some *Financial History* articles that have been included are listed in the sidebar on the next page. The cover story of this issue, "New Deal or Raw Deal? Black Americans in the Roosevelt Years," by Jill Watts, will be added to the bibliography this month as well.

As members and friends of the Museum of American Finance, we know our readers are inherently interested in the history of business, economics and finance, and we invite you to submit any articles or publications you have read and would recommend that pertain to business history and race (see instructions, page 5). We welcome your participation in this important initiative.

Moving forward, we will continue to focus on inclusivity in our programming and content. For those who may have missed our 2017–2018 exhibit with the Museum of UnCut Funk titled "For the Love of Money: Blacks on US Currency," we are highlighting the men and women featured in that exhibit on our social media channels in commemoration of important moments in Black history. The positive representation of free Black people on commemorative currency is one of the earliest forms of public recognition of Black excellence, contribution and value. An overview of the exhibit including materials and resources can be found at www.moaf.org/exhibits/ftlom.

Finally, I would like to thank our supporters for continuing to attend our programs and utilize our resources in what has been a difficult time for museums. We are planning several exciting virtual events for the fall, all of which are free to attend, and we welcome our members and friends to tune in and spread the word. $

Elsa Ruiz

The 2017 "For the Love of Money" exhibit, in collaboration with the Museum of Uncut Funk.

Select *Financial History* Articles on Business History and Race

"For the Love of Money: Blacks on US Currency." *Financial History,* Issue 120, Pages 20–23. Winter 2017.

Garrett-Scott, Shennette. "'A Commercial Emancipation' for the Negro." *Financial History,* Issue 131, Pages 20–23. Summer 2019.

LaRocco, Claudia. "A Dark Day on Black Wall Street." *Financial History,* Issue 76, Pages 12–15. Summer 2002.

Morris, Gregory DL. "Native Talent: Most Indian Business Are Just a Generation Old, But Among Many First Nations a Tradition of Commerce is Centuries Old." *Financial History,* Issue 84, Pages 20–24. Fall 2005.

Morris, Gregory DL. "From the Dustbowl to the Federal Reserve: 50 Years Ago Andrew Brimmer Broke the Color Barrier at the Fed." *Financial History,* Issue 118, Pages 24–26. Summer 2016.

Morris, Gregory DL. "Go to Durham, You Need the Inspiration: How Black Wall Street Flourished in a Piedmont Railroad and Tobacco Town." *Financial History,* Issue 128, Pages 24–27. Summer 2018.

Wright, Robert E. "Economic Growth and Slavery, Then and Now." *Financial History,* Issue 122, Pages 11–14. Summer 2017.

Wright, Robert E. "Financial Discrimination and Innovation." *Financial History,* Issue 131, Pages 12–15. Summer 2019.

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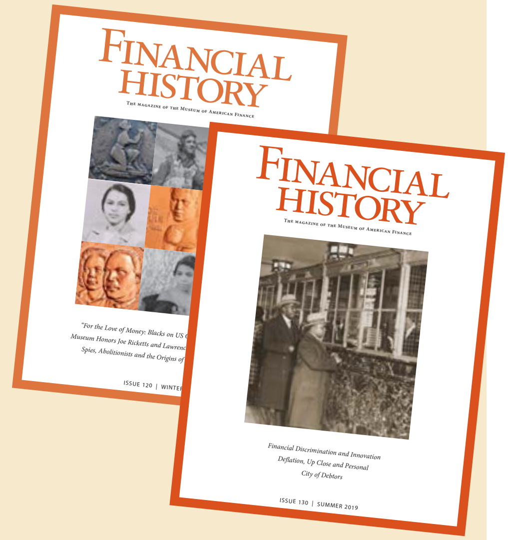

To contribute to the business history and race bibliography, submit your suggestions to Anne Fleming of the BHC Electronic Media Oversight Committee (acf80@law.georgetown.edu) or BHC Web Editor Paula de la Cruz-Fernández (padelacruzf@gmail.com), or tweet titles to @TheBHCNews.

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Wild West Finance: The Johnson County Range War (Part 2)

By Brian Grinder and Dan Cooper

"Somebody said to Andrew Bell that they heard Miss Molly Wood was engaged to marry a RUSTLER. 'Heavens, Andrew!' said his wife; 'what is a rustler?' It was not in any dictionary, and current translations of it were inconsistent. A man at Hoosic Falls said that he had passed through Cheyenne, and heard the term applied in a complimentary way to people who were alive and pushing. Another man had always supposed it meant some kind of horse. But the most alarming version of all was that a rustler was a cattle thief. Now the truth is that all these meanings were right. The word ran a sort of progress in the cattle country, gathering many meanings as it went."

—Owen Wister, *The Virginian*

In "The Johnson County Range War: Part 1" *(Financial History*, Issue 133, Spring 2020), we explored the wild enthusiasm for open range cattle ranching in the American West, which drew massive amounts of cash and capital from Europe and the East Coast. The prospect of annual returns in excess of 25% for an investment perceived as riskless was too good to be true. The drought during the summer of 1886 followed by a brutal winter forced investors to face reality, and many withdrew from the business. As conditions worsened, tension increased between large ranchers and homesteaders. The ranchers took matters into their own hands when local courts failed to convict accused cattle rustlers. Blood was shed in Central Wyoming when Wyoming Stock Grower Association (WSGA) ranchers hanged Ella Watson and Jim Averell for cattle rustling. The violence then moved to Johnson County.

John Tisdale urged his team up out of Haywood Gulch. He was heading back to his homestead south of Buffalo, WY, the seat of Johnson County. His pregnant wife and his sons awaited him. Tisdale had gone to Buffalo to stock up on supplies for the winter and to buy Christmas presents for his family. While there, he either overheard someone talking about him or heard a rumor that deeply troubled him. He postponed his trip home for a couple of days and was seen in several saloons drinking. This was uncharacteristic of Tisdale. For some reason, he was afraid to head home. Tisdale purchased a double-barreled shotgun before leaving Buffalo and kept it on the wagon seat beside him.

As he started up the hill, an assassin stepped out from behind a clay abutment and shot Tisdale in the back, killing him. The gunman then hid Tisdale's wagon at the base of the gulch and shot the horses. Tisdale's body was discovered later in the day after another early morning traveler informed Buffalo Sheriff Red Angus that he had heard gunshots in the gulch.

Two days later, on December 3, 1891, the body of Ranger Jones was found lying in his buckboard a few miles south of where Tisdale met his end. The killing occurred a few days before Tisdale's murder. Both had been dry gulched, shot in the back.

Apparently both Tisdale and Jones had information about an earlier failed ambush that took place in Hole-in-the-Wall country where homesteader and former ranch hand for the large cattle interests Nate Champion had moved 200 cattle to the open range. Robert Tisdale (no relation to John Tisdale) was also grazing about 2,000 cattle there and was not happy with Champion's intrusion. When Tisdale angrily pulled his cattle out of the area, some of Champion's cattle were caught up with his herd. Champion pursued Tisdale's herd and audaciously cut out his cattle along with their unbranded calves—mavericks.

On the morning of November 1, 1891, four gunmen stormed the small cabin where Champion and Ross Gilbertson were sleeping. Two of the gunmen crashed through the door and demanded that the occupants of the cabin give up. Champion reached for the gun under his pillow as he yawned and asked the intruders what they wanted. Gun fire was exchanged. Neither Champion nor Gilbertson were hit, but Champion inflicted a mortal wound on one of the intruders, who ran away holding his stomach. The intruders panicked and fled, but not before Champion got a good look at them. One of the intruders was former Buffalo Sheriff Frank Canton, who now worked as a range detective for the WSGA. Canton was later named a primary suspect in the killings of Tisdale and Jones.

After the incident, Champion went to see John Tisdale to enlist his help in the imminent battle with the big cattle ranchers. He probably also spoke with Jones, Tisdale's neighbor, about the incident, sealing the fate of both men.

Anger at the legal system, frustration with rustlers and homesteaders and fear of exposure in the recent deaths of Tisdale and Jones drove W.C. Irving and Major Frank Wolcott, both members of the WSGA, to concoct an invasion of Johnson County. WSGA President John Clay thought the idea was insane[1] but did nothing to impede planning. During the invasion, he found it convenient to be in Chicago "on business."

The invasion plan included hiring gunmen from Texas and transporting them to Wyoming by secret express. The invaders

National Park Service; Richard Collier, photographer

Front of the original TA Ranch house, located approximately 14 miles south of Buffalo, Wyoming.

drew up a list of as many as 70 Johnson County residents slated for assassination. The regulators[2] planned a surprise assault on Buffalo where they would first do away with Sheriff Angus, his deputies and the Johnson County commissioners. They would then fan out, find and dispose of the rustlers on the list. In their righteous indignation, the invaders assumed that the good people of Johnson County would rise up and join them in the purge. However, the locals were upset and frightened about the cold-blooded murders of Tisdale and Jones. Most believed that the big Johnson County cattlemen were behind those murders.

WSGA members provided over $100,000 to fund the expedition. Wolcott was chosen to lead the invasion with Irving as second-in-command. Wyoming Governor Amos W. Barber was kept abreast of the plans and played an important role by sending a telegram prior to the invasion instructing the Wyoming National Guard to only follow orders directly from the governor and ignore any requests for help from local authorities. Wyoming Senators Joseph Cary and Francis Warren were also apprised of the plan.

A train was sent to Texas where more than 20 gunmen had been hired. Horses and "enough ammunition to kill all the people in the state of Wyoming" were purchased in Colorado. The train rolled into Cheyenne, and the passenger car containing the Texans was quickly coupled to a special train loaded with horses, wagons and gear. Several of the WSGA ranch owners—along with their ranch foremen and hired hands—boarded the train in Cheyenne. A few WSGA stock detectives, including Frank Canton, also joined the group. According to Davis, 52 men were on the train.

Smith wrote, "The famous train, the 'secret,' 'mysterious' invasion special, got away from Cheyenne in the late afternoon of Tuesday, April 5, 1892, amid a flurry of rumor and speculation. While the leaders congratulated themselves that their preparations had gone unobserved, the train's departure was undoubtedly one of the worst-kept secrets in the history of the West." As the train made its way to Casper, the telegraph wire to Buffalo was cut by WSGA operatives.

The train arrived in Casper before dawn the next day, and the regulators began the 112-mile trek to Buffalo. Things quickly went awry when a spring blizzard hit. The force slogged along for two days before reaching the TTT Ranch about 65 miles from Casper. Mike Shonsey, who had been scouting the route ahead, rode back to the TTT with news that 15 rustlers were staying at the nearby KC Ranch. Some of the group wanted to push on to Buffalo ignoring Shonsey's news, but Wolcott chose to attack the KC.

Shortly before midnight on April 8, the regulators headed to the KC Ranch for an early morning raid. They surrounded the cabin where Nate Champion, Nick Ray and two overnight visitors were sleeping. They quickly apprehended the two visitors when they came out of the cabin. Ray stepped outside to check on the visitors and was felled by one of the Texans. He dragged himself toward the cabin door where Champion soon appeared firing at the invaders. Champion helped Ray back to the cabin and proceeded to hold off his attackers for most of the day. The invaders decided to set the cabin on fire to force Champion out. They accomplished this by ramming a burning wagon up against the cabin. The ensuing fire forced Champion to flee in his stocking feet, a Winchester rifle in one hand and a revolver in the other.[3] As he headed south toward a ravine, two Texans hiding there quickly gunned him down. Champion lost his life, but by singlehandedly holding off the invaders for several hours, he allowed time for a number of locals who witnessed the standoff to sound the alert in Buffalo. The element of surprise had vanished.[4]

Nevertheless, the invaders pushed on arriving at the TA Ranch,[5] about 14 miles south of Buffalo, on the morning of April 10. The next morning, they began their final push to Buffalo, but they retreated to the TA Ranch after learning that Sheriff Angus was headed their way leading a group of 250 armed men. Instead of supporting the invaders, the citizens of Johnson County rose in anger to repel them.

Over the coming days, more than 400 men from as far away as Sheridan joined the siege. The Johnson County Range War would not be decided in Buffalo, but at TA Ranch headquarters on the banks of Crazy Woman Creek. $

Brian Grinder is a professor at Eastern Washington University and a member of Financial History*'s editorial board. Dr. Dan Cooper is the president of Active Learning Technologies.*

Notes

1. Wyoming attorney Willis Van Devanter wrote to Senator Francis Warren shortly after the siege at the TA Ranch ended, "There is no question but that the expedition was either poorly managed or committed many grievous errors; none, however, so grievous as the error of going at all."
2. The term "regulators" was applied to forces in the American West engaged in vigilante activities.
3. Nick Ray died at about 9:00 in the morning. His body burned in the fire.
4. Range War chronicler John W. Davis notes that, "Champion was later referred to as 'King of the Rustlers' by big cattlemen, but this nickname was an outrageous lie, a convenient slogan without support. There is no record in Johnson County of any charges having been pressed against Nate Champion. Most significantly, Willis Van Devanter, the chief attorney and ally of the big cattlemen in Wyoming, made an important admission regarding Champion. In June 1892, when Van Devanter would have given almost anything to prove that Nate Champion was a prolific cattle thief, he had to admit to Senator Joseph M. Carey that 'there is absolutely no proof of any kind against him [Champion],—not even that he stole a calf.'"
5. The TA was owned by Cheyenne physician and WSGA member Dr. William Harris.

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DAVID L. DODD

Out of Ben Graham's Shadow

By James Russell Kelly

The September/October 1984 edition of the *Financial Analysts Journal* featured a cover story celebrating the 50th anniversary of Graham & Dodd's *Security Analysis*. The lead article was entitled "Graham and Dodd: A Durable Discipline," and was written by Roger F. Murray, their successor at Columbia. The cover page featured images of the two men, with Graham in the foreground. In the March/April 1985 edition, David Dodd responded in a letter to the editor:

> The front cover of the September/October issue of *Financial Analysts Journal* very properly shows me in Ben Graham's shadow. Ben was my mentor in our profession from the time in September 1928 when I joined him as a junior colleague in what proved to be a very popular late afternoon course in security analysis offered by Columbia's School of Business... Most of what I know about our profession I got from him firsthand... My debt to him is very great indeed.
>
> When, in 1984, I was awarded an honorary degree by Columbia University for my part in the preparation of *Security Analysis*, I had moments of sadness that it was I, rather than Ben, who was being so honored. (Graham passed away in September 1976.)

This article aspires to bring David Dodd out of Ben Graham's shadow by shining a bright light on Dodd and his accomplishments.

David L. Dodd, circa 1960.

Personal History

David LeFevre Dodd was born on August 23, 1895 in Martinsburg, WV, a small town in the northeast panhandle of the state. He was the second of four children of David H. Dodd (1855–1953) and Mary V. Shaffer (1857–1944). His father was a stern, demanding teacher and long-term principal of High Street High School in Martinsburg, where young David graduated. This may explain his son's life-long interest in teaching.

Dodd enrolled in the University of Pennsylvania to study economics, but his education was interrupted by World War I. In June 1917, he joined the US Navy and served in Florida for a year as chief yeoman and boatswain, before being transferred to the US Naval Academy, Annapolis, for a three-month intensive officer training program. In September 1918, he was commissioned an ensign and assigned to the *USS Harrisburg*, a troop transport ship that brought US troops home from France after the armistice in November 1918. He served on active duty until July 1919, when he resumed his university studies.

He received a Bachelor of Science in economics in February 1920. The *Pennsylvania Gazette* noted that his degree, along with those of 43 other economics graduates, was retroactive "as the class of 1918," indirectly acknowledging their time served in the military.

Columbia University (1920–1961)

Dodd wasted no time after graduation in pursuing an academic career in economics. He moved to New York and enrolled in Columbia University's master's degree program in economics in 1920 and received his degree the following year. Upon graduation, he worked briefly as a research assistant in economics at the National Bank of Commerce in New York. In 1922, he returned to Columbia University as an instructor in economics.

Dodd married Elsie Marguerite Firor from Washington, DC in 1924. The couple lived initially at 540 W. 123rd Street, and for many years later at 39 Claremont Avenue, both near the Columbia University campus in Morningside Heights. Their daughter, Barbara, was born in 1932.

Dodd's focus evolved from economics to finance in 1925, when he became an instructor in finance at Columbia Business School. It was in this capacity that he met Benjamin Graham and began a lifelong partnership. Graham recalls their early collaboration in his memoirs:

Courtesy of David Anderson

Dodd family circa 1928–1930. David L. Dodd, top row, third from right with his two brothers, Earle and Donald on each side. Elsie M. Dodd (wife), middle row, left. David H. Dodd (father), bottom row.

> One of the students in the fall of 1927 was David L. Dodd, then an assistant professor in the School of Business at Columbia. He was to become my co-adjutor in teaching, the co-author of our "Bible of Wall Street," *Security Analysis*, an associate in important financial ventures, and an unfailingly loyal friend.

PhD Dissertation (1930)

During the late 1920s, Dodd continued to teach and study at Columbia, in collaboration with Ben Graham. In 1930, he was awarded his PhD degree. His dissertation, entitled "Stock Watering: The Judicial Valuation of Property for Stock-Issue Purposes," was published as a 330-page book by Columbia University Press. He defined stock watering "as the issuance of nominally fully paid stock in an amount exceeding the value of the assets against which the stock has been issued." His dissertation seeks to "answer the question as to what the courts mean by 'value' when they interpret the laws which require that stock must be issued for property or services at a fair valuation." The issue was complicated by the existence of both historical par value and newly popular non-par value shares issued by different companies.

Dodd's conclusion for non-par value shares was to propose a series of minimum requirements for companies issuing stock. These included an independent audit, a balance sheet valuation, an annual balance sheet, annual profit and loss statements and a prospectus. Upon completion of his dissertation and publication of his book, Dodd was promoted to assistant professor.

Security Analysis (1934)

Ben Graham reflects in his memoirs that in the "trying times of 1930–32, I kept busy with many activities… I continued to give my course at Columbia, though to much smaller classes, and in 1932 I set definitely to work on the textbook that I had first projected in the lush times of 1927." He continues:

> I asked Dave Dodd to collaborate with me on the book. We agreed that I would be the senior author and write the entire text in my style. He would aid with suggestions and criticisms, would check the numerous facts and references, and work up the tables. We prepared a table of contents and a sample first chapter, and submitted them to McGraw-Hill & Company through Hugh Kelly, a bright young employee who had been one of our students. (He later became McGraw's vice president.) McGraw submitted our material to their reader, a Harvard professor of finance. As an exception to the rule, we were shown his report, which was very favorable—his only doubt being whether we would have the stamina to carry the ambitious work to a conclusion. McGraw-Hill was so impressed with his recommendation that they offered us a straight 15% royalty, instead of the sliding scale that usually started at 10%. Dodd and I agreed to divide the royalties three-fifths to me and two-fifths to him. The contract was signed at the end of 1932, but it was to take a year and a half before the first edition of *Security Analysis* made its appearance.

Roger F. Murray, Ben Graham and David Dodd's successor at Columbia, has a slightly different recollection of their relationship. In an interview with Peter Tanous, in his book *Investment Gurus*, Murray looked back to the period of 1956–61, when he and Dodd were both professors at Columbia Business School. He describes the textbook as an "interesting joint product," admitting that "Ben Graham was not addicted to writing a serious text. He was full of ideas, loved to chat, loved to think out loud. David Dodd sat in on Ben's classes and took copious notes. Then Dave would go dig out and verify the examples that Ben had used. That's how the first edition of *Security Analysis* came about in 1934."

Graham and Dodd: A True Partnership

In addition to describing their working dynamic to Tanous, in the same interview Murray remembers Graham and Dodd's complementary personalities:

> [Ben Graham was] just exactly the way he was pictured—a man who read for background, a fine classical scholar, a man with an idea a minute. He had a wonderfully agile mind. Dave Dodd was a wonderful gentleman. He was one of the finest people I have ever met anywhere. He could listen to Ben all day long, but retained a healthy skepticism, and when Ben would launch into one of his ideas, which came along about every thirty seconds, Dave would quietly just sit down and say, that's an interesting idea, Ben. However, do you believe that the facts really support that strong a conclusion? Then, he'd get to work on the serious analysis.

As demonstrated in the recollections by both Graham and Murray, Graham and Dodd were true partners. This partnership was evident not only in their academic collaboration, but also in their business ventures: Graham-Newman Corporation and GEICO. Their relationship extended until Graham's passing in 1976.

Graham-Newman Corporation (1936–1957)

The Graham-Newman Corporation was an investment company originally founded in 1926 as the Benjamin Graham Joint Account, with a capital base of $400,000. Jerry Newman, an acquaintance who graduated from Columbia College and Law School, joined him as a partner in the first year. Graham recalls that Newman was invaluable. "He was much better than I at the details of a commercial operation. He was shrewd and effective at negotiating deals of all sorts and was completely honest and dependable—qualities essential for lasting success in Wall Street. However, he was not a theoretician nor especially inventive in the field of finance."

Three years later, the capital had increased to $2,500,000 mostly from profits. In 1936, its legal form was changed from a "quasi-partnership" to a corporation, the Graham-Newman Corporation, in order to comply with IRS tax regulations. Dodd became a director of the corporation in 1944, a post he held until the liquidation of the fund in 1957.

By 1946, after 10 years of operation, the net asset value of the fund increased to $4,172,000. This represented a 17.6% net annual return after fees and expenses, as compared to 10.1% for the S&P Index.

In 1951, Dodd and his wife held 90 shares of stock in the corporation. Each share was worth $1,232 for a total of $110,880. Graham and his wife owned 252 shares for a total of $310,464. In addition, Graham and

Newman each received salary and incentive compensation of $80,214. The net assets in the fund had grown to $6,162,000. In 1953, net assets peaked at $7,267,000. The fund was liquidated in 1957 after Graham's retirement to California.

In addition to their joint holdings in the Graham-Newman Corporation, both Graham and Dodd were partners in Newman and Graham, a private hedge fund, which carried on the arbitrage strategies of the Benjamin Graham Joint Account.

They were also partners in a controlling investment in Government Employees Insurance Company (GEICO). Graham was chairman of the board and Dodd was an investor and member of the board of directors of GEICO and related companies. He was vice chairman of the profit-sharing plan of all the companies from 1960–63. Graham-Newman's investment of $712,000 in GEICO in 1948 eventually resulted in a position worth $400 million by 1972.

Courtesy of David Anderson

David Dodd's guest cabin on Chebeague Island, Maine, which he used as a summer retreat for writing.

Relationship with Warren Buffett (1950–1988)

By 1950, Dodd had ascended the academic ladder to become a full professor and Associate Dean for Admissions. According to *Columbia Business School: A Century of Ideas*, in August of that year he was contacted by a young graduate of the University of Nebraska named Warren Buffett who was investigating graduate schools to attend. The normal application deadline for the fall term had passed, but Dodd agreed to admit him, perhaps because of Buffett's familiarity with *Security Analysis* and *The Intelligent Investor*, which had been published the year before. According to *Columbia Business School: A Century of Ideas:*

> Although only at the school for one year, Buffett took a well-attended investment course, Finance 111–112 Investment Management and Security Analysis, from Dodd in the fall of 1950 and a much smaller seminar class with Graham in the spring of 1951. Dodd taught his class using the 1940 edition of *Security Analysis*. Graham taught mostly by presenting then-current investment cases.

In these classes, a young Buffett "learned the details of reading a financial statement from Dodd, and Graham taught him how to use a company's published financial statements to estimate the fair value for its securities." Indeed, Graham and Dodd "gave Buffett the tools to begin mastering the art of investing." Graham famously awarded him the only A+ grade in his 21 years of teaching and hired him as an analyst at Graham-Newman. According to his grandson, David Anderson, Dodd was disappointed that Buffett decided to leave after one year. He was looking forward to mentoring him again for another year.

When Buffett founded the Buffett Partnership in 1956, Dodd invested as an expression of support, without any particular expectation of a huge return. Dodd followed up by investing in Berkshire Hathaway after the Buffett Partnership was liquidated at the top of the market in 1969. He bought the Berkshire Hathaway shares in the name of his daughter, Barbara Dodd Anderson.

Later Years at Columbia (1951–61)

One of Dodd's students in the spring semester of 1957 was Judy Stein, one of only six women at Columbia Business School at that time. She was an economics major from Mount Holyoke College, and only a few years younger than Dodd's daughter Barbara. Stein remembers Dodd's style of teaching as being a combination of lecture and discussion. He was low-key and conversational, but also required that students speak up in class. He used the third edition (1951) of *Security Analysis* as his textbook.

Dodd was very supportive of Stein in her career and wrote letters of recommendation for her to both George Weiss, a senior partner of Bache & Co., and Henry Loeb, a senior partner of Loeb Rhoades & Co., a research-oriented stock brokerage firm. Loeb hired her as an analyst, making her one of only four women security analysts on Wall Street during the 1950s.

Retirement Years (1961–1988)

Dodd continued to teach security analysis at Columbia until 1961, when he retired. He passed the mantle to Roger F. Murray, who educated the next generation

Courtesy of George School

Barbara Dodd Anderson cutting ribbon on the new George School library in 1997 with her granddaughter, Mollie Dodd Anderson, as Warren Buffett looks on.

Courtesy of David Anderson

David Dodd and his wife, Elsie, at a 1972 Columbia Business School award ceremony.

of students in the tradition of Graham & Dodd until 1978. After retirement he continued to live with his wife, Elsie, in their apartment at 39 Claremont Avenue.

He did some consulting and worked extensively on both the 1962 and 1988 editions of *Security Analysis.* He also was instrumental in helping GEICO survive a huge $126,500,000 loss caused by overexpansion during the 1973–75 recession.

David Anderson, Dodd's grandson, has many fond recollections of his grandfather in retirement. Each summer, the whole family spent two months in their family cottage on Chebeague Island, off the coast of Maine. He affectionately called his grandfather "Pop" and remembers spending a lot of quality time with him over many years, including fishing on the local pier. He remembers him as "a wonderful grandfather." He also describes him as being highly respected by everyone who knew him.

In January 1981, Dodd's wife, Elsie, passed away. He maintained his New York apartment but lived at Chebeague Island from late spring through the fall. He later married Lilian Brown, who also had a summer cottage on the island. When they married, they purchased a winter house in Falmouth Foreside, on the coast of Maine, just west of the island, and lived there until Dodd's death in 1988.

50 Years of *Security Analysis* (1984)

1984 was a great year in the history of value investing. In May, Michael Sovern, president of Columbia University, awarded Dodd an honorary doctorate of letters. Sovern told Dodd: "You have applied your financial theories with brilliant results in the highly competitive world of investments."

Also in May, Buffett gave a now-famous speech at Columbia Business School, entitled "The Super Investors of Graham and Doddsville" which he delivered at a seminar marking the 50th anniversary of *Security Analysis*. These investors included himself; Walter Schloss; Tom Knapp of Tweedy, Browne; Bill Ruane of the Sequoia Fund; Charlie Munger and others.

Buffett's speech challenged the prevailing conventional wisdom that stocks are efficiently priced by detailing the performance of eight disciples of Graham and Dodd, including himself. According to Buffett, these disciples all shared a "common intellectual theme… They search for discrepancies between the value of the business and the price of small pieces of that business in the market… Our Graham and Dodd investors, needless to say, do not discuss beta, the capital asset pricing model, or covariance in returns among securities… The investors simply focus on two variables: price and value."

The third event of 1984 was Murray's profile of "Graham and Dodd: A Durable Discipline," in the *Financial Analysts Journal*'s 50th anniversary edition of the publication of their book. Murray, Graham and Dodd's successor at Columbia, wrote that their "disciplined approach to financial analysis represents a permanent enhancement of the quality of decision-making in finance and a lasting contribution to the increased efficiency of markets in the allocation of resources." He noted their influence on developing the "concept of earning power, as distinct from reported earnings... [which] led directly to the valuation of companies, instead of stock certificates." Murray continued:

> But Graham and Dodd's contribution did not stop with the publication of *Security Analysis*. The authors were inveterate teachers, whether in

the classroom, the boardroom, or the pages of the test; their students took to their decision-making tasks a new perception of the analytical process. It is these many thousands who have given *Security Analysis* so much meaning in financial markets. What could satisfy a teacher more?

Dodd acknowledged Murray's own contribution to security analysis in his 1985 letter to the editor referenced at the beginning of this article, thanking the editor for including Murray's piece, and writing, "As our successor at Columbia for over 20 years, no other whom you might have chosen could have done a better job than Roger."

Out of the Shadow

David L. Dodd passed away in 1988 at age 93 at Maine Medical Center in Portland and rests in peace on Chebeague Island. He left a legacy that shines brightly—out of the shadow at last.

Coda I (2007)

Barbara Dodd (1932–2010) grew up with her parents in New York. She attended George School, an elite Quaker prep school near Newtown in Bucks County, PA, from 1946–1950. She went on to attend St. Lawrence University and then earned an MA from Columbia Teachers College. She married John S. Anderson, a founder of Associated Brass, which made model railroading products under the Cal-Scale brand name. He was a master die maker. They settled in Fresno, CA.

Her father acquired Berkshire Hathaway shares in Barbara's name after Buffett took control in 1969. Barbara admired Buffett and never sold any of the shares to fund personal needs during the ensuing decades. She only sold some shares to fund educational trusts and gifts, according to her son, David Anderson. "She never sold stock on the rare instances when it lost value. She always had faith that Mr. Buffett would bounce back—and he always did."

She became very active in philanthropy, especially with Columbia Business School and George School. At Columbia, she endowed the David L. and Elsie M. Dodd Chair in Finance, which is presently held by Tano Santos. In 2007, she donated $128,500,000 to the George School. It is believed to be one of the largest single gifts to a secondary school. She said that her father's long-time friend, Buffett, who announced in June 2006 that he would bequeath the bulk of his fortune to the Bill and Melinda Gates Foundation, was her inspiration.

Buffett attended the gift ceremony at the George School. "As both a teacher and a friend, I revered Dave," Buffett said in a statement from the school. "I am delighted that his decision to invest in Berkshire has enabled Barbara to honor both her father and George School through this wonderful gift."

Coda II (2009)

In the forward to the sixth edition of *Security Analysis*, published in 2009, Buffett wrote, "There are four books in my overflowing library that I particularly treasure, each of them written more than 50 years ago." He continued:

> Two of those books are first editions of *The Wealth of Nations* (1776) by Adam Smith, and *The Intelligent Investor* (1949) by Benjamin Graham. The third is an original copy of the book you hold in your hands, Graham and Dodd's *Security Analysis.* I studied Security Analysis while I was at Columbia University in 1950 and 1951, when I had the extraordinarily good luck to have Ben Graham and Dave Dodd as teachers. Together, the book and the men changed my life… Beyond the ideas Ben and Dave gave me, they showered me with friendship, encouragement, and trust. They cared not a whit for reciprocation—toward a young student, they simply wanted to extend a one-way street of helpfulness. In the end, that's probably what I admire most about the two men. It was ordained at birth that they would be brilliant; they elected to be generous and kind.
>
> But let's go to the fourth book I mentioned, which is even more precious. In 2000, Barbara Dodd Anderson, Dave's only child, gave me her father's copy of the 1934 edition of *Security Analysis*, inscribed with hundreds of marginal notes. These were inked by Dave as he prepared for the publication of the 1940 revised edition. No gift has meant more to me. $

James Russell Kelly is Director of the Gabelli Center for Global Security Analysis and Senior Lecturer in Finance at Fordham University. He graduated from Columbia Business School in 1969.

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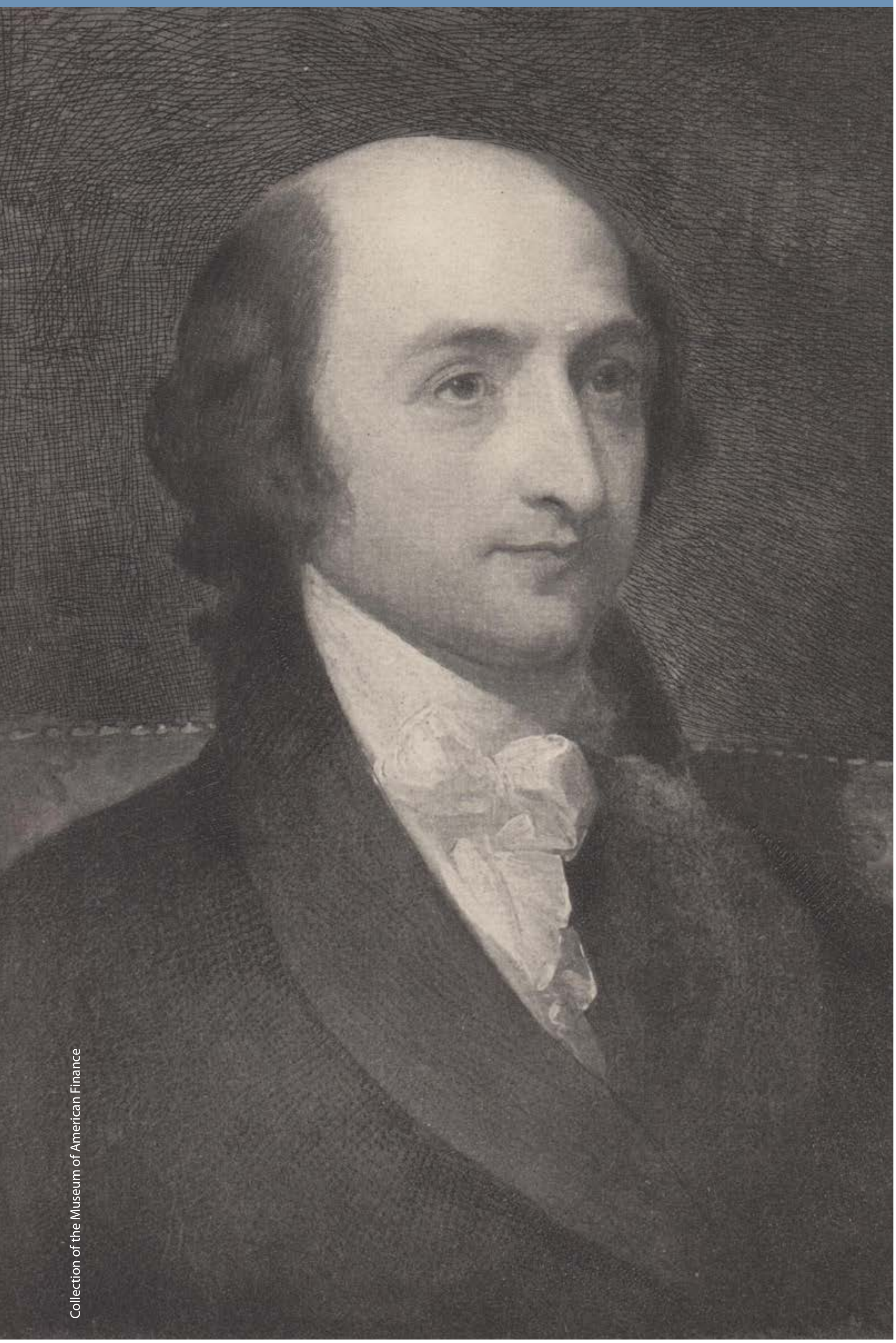
Federal Financing *of* Internal Improvements *in* Antebellum America

By Michael A. Martorelli



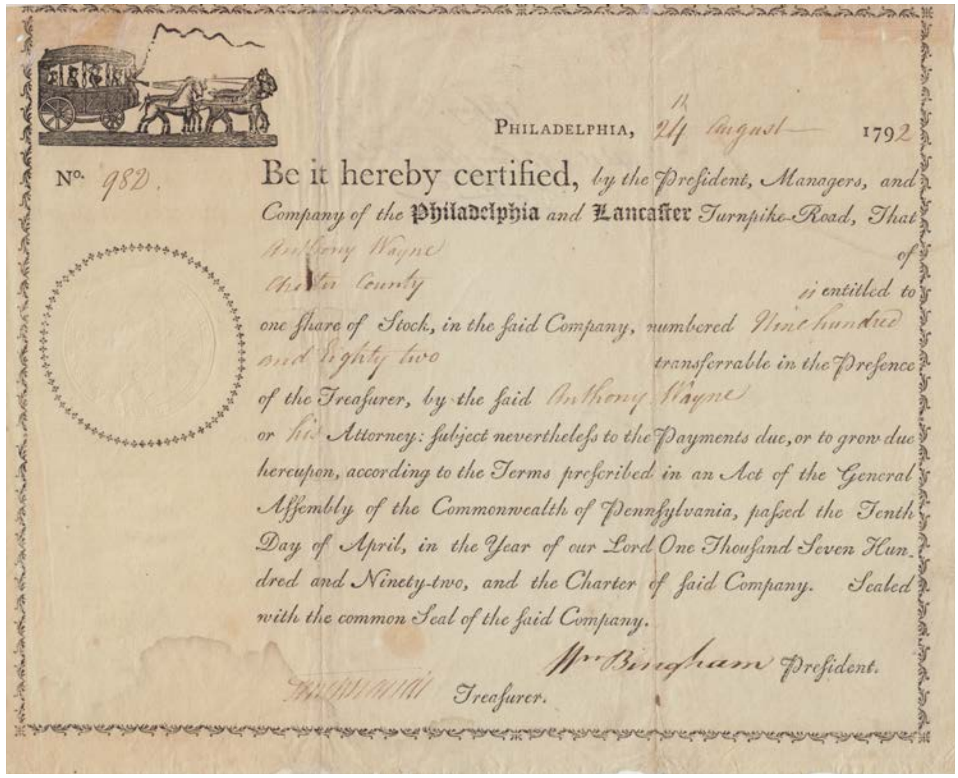
Engraved portrait of Secretary of the Treasury Albert Gallatin. Gallatin's April 1808 *Report on the Subject of Public Roads and Canals* detailed a comprehensive network of roads and waterways he believed the government should build to connect towns, rivers and lakes in every section of the country.

Throughout this Republic's first seven decades, many people expressed strong interest in making improvements to the country's transportation network. Civic leaders believed an integrated system of roads, turnpikes, canals and, eventually, railroads would help strengthen the nation's political and economic ties. Throughout the decades, however, those men disagreed over the federal government's role in financing the costs of such internal improvements. This analysis shows that ambiguous guidance from the Constitution was only one problem. Others included an anti-government attitude, state and sectional differences and sporadic budgetary concerns.

The US Constitution permitted Congress to regulate interstate commerce and establish post roads, but it did not give that body the permission to finance or build internal improvements, such as roads and canals. The nation's early political leaders were wary of exercising any unspecified power and were quite conscious of the perceived threat that an over-reaching central government would pose to the states. None of the first six Congresses and neither of the first two Presidents wanted to commit the federal government to funding internal improvements. Instead, they counted on the states and the moneyed gentry to finance and build any appropriate additions to the country's transportation network.

Throughout the 1790s, state legislators and private investors cooperated to establish dozens of toll-free roads and fee-based turnpikes. Private companies in several states even managed to overcome significant engineering challenges and build relatively short canals to connect important bodies of water.

By 1802, it became apparent that states and private companies could not provide the capital necessary to pursue large internal improvements. Officials of the Chesapeake and Delaware Canal Company were forced to suspend work on that eponymous pathway between two important waterways when the company ran out of money. So


PHILADELPHIA, 24 August 1792

No. 982.

Be it hereby certified, by the President, Managers, and Company of the Philadelphia and Lancaster Turnpike-Road, That Anthony Wayne of Chester County is entitled to one Share of Stock, in the said Company, numbered Nine hundred and Eighty two transferrable in the Presence of the Treasurer, by the said Anthony Wayne or his Attorney: subject nevertheless to the Payments due, or to grow due hereupon, according to the Terms prescribed in an Act of the General Assembly of the Commonwealth of Pennsylvania, passed the Tenth Day of April, in the Year of our Lord One Thousand Seven Hundred and Ninety-two, and the Charter of said Company. Sealed with the common Seal of the said Company.

Wm Bingham President.

Treasurer.

Collection of the Museum of American Finance

One share of stock in the Philadelphia and Lancaster Turnpike, dated August 24, 1792.

they petitioned the federal government for financial support of the project.

President Thomas Jefferson expressed some interest in using surplus federal funds for that purpose. But the man who found the constitutional authority to pay $15 million for the Louisiana Purchase did not detect that document's permission to honor the Canal Company's request. Several years later, the President responded to growing interest in the establishment of better roads to the west by authorizing the construction of the Cumberland Road to connect the Potomac River at Cumberland, MD with the Ohio River at Wheeling, VA (now West Virginia). To avoid an argument over his constitutional authority, Jefferson approved the project only after obtaining the consent of the states through which the road would pass.

In 1807, Congress directed Secretary of the Treasury Albert Gallatin to prepare a report to guide the legislators as they considered their support of internal improvements. Gallatin's April 1808 *Report on the Subject of Public Roads and Canals* detailed a comprehensive network of roads and waterways he believed the government should build to connect towns, rivers and lakes in every section of the country. The report sparked a new wave of interest in turnpikes, roads, bridges and canals.

During the next two years, legislatures and private businessmen throughout the country's 17 states and half a dozen territories financed and constructed their own internal improvement projects. All of them were important to a particular locality; some were supposed to have broader significance for a wider geographic region, but none were presented as part of a Gallatin-type national system of internal improvements. President James Madison appeared sympathetic to some requests for federal funding. But even before being forced to deal with another war with Great Britain in 1812, he found it impossible to encourage or support federal financing of even the most well-intentioned internal improvement.

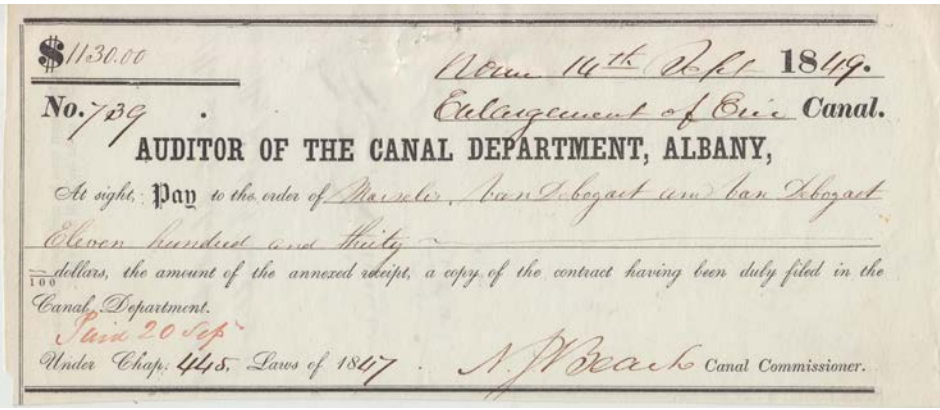
With peace restored in 1815, Congress again took up the question of the federal role in establishing a coherent system of transportation linkages. It approved New York State's request to provide funding for a canal connecting the Hudson River with Lake Erie; but President Madison vetoed the bill. As construction of the Cumberland Road proceeded westward in 1816, Representatives John Calhoun and Henry Clay introduced a bill that purported to advance the type of plan described in the Gallatin report. It would use the anticipated bonus of $1.5 million the Bank of the United States would pay to the US Treasury to establish a fund to finance the construction of yet-to-be-determined roads and canals. But the fourth President shared his predecessor's concern over the lack of constitutional authority to establish the type of funding mechanism the so-called "Bonus Bill" envisioned. To the disappointment of many, Madison vetoed the bill on his last day in office.

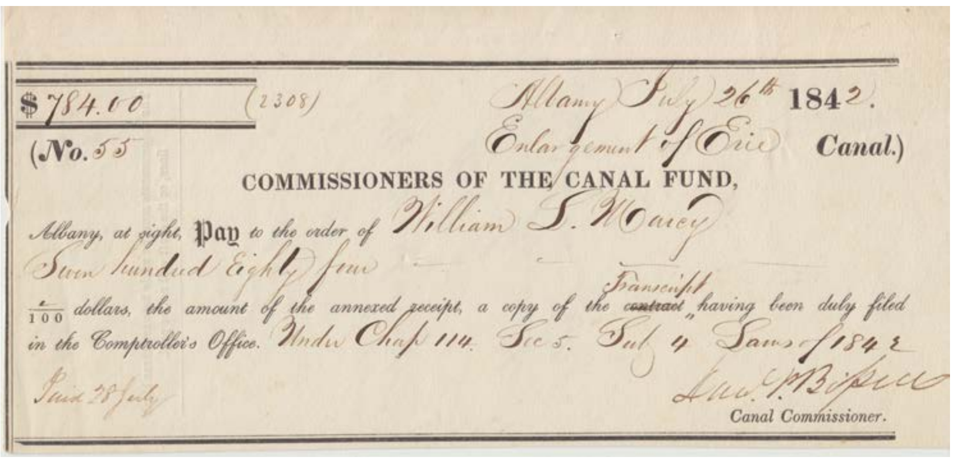
Congresses and Presidents continued to debate the issue. In 1818, President James Monroe celebrated the completion of the Cumberland Road, but four years later he vetoed a bill that would create a toll system on that road. In his veto message, however, this President suggested that Congress did indeed have the right to appropriate money for internal improvements—as long as it did not attempt to establish or control an integrated national transportation system.

In 1823, President Monroe approved a bill appropriating money for much-needed repairs to the Cumberland Road. In April 1824, he signed the General Survey Act, which authorized the Army Corps of Engineers to conduct surveys and evaluate potential routes of roads, canals and the earliest railroads. Around the same time, the President found the authority for Washington to make an investment in the reorganized Chesapeake and Delaware Canal Company.

Under President Monroe's leadership, the government also began distributing federal land grants to enable the construction of specific roads and canals. By the end of his eight years as President, the federal government had spent almost $3 million on internal improvements. That amount exceeded by almost 50% the $2.1 million spent during President Madison's four years in office and was double the amount spent from 1789 to 1809 under Presidents Washington, Adams and Jefferson.

State legislatures and private investment groups had never let the uncertainty over the federal role in financing internal improvements prevent them from enhancing their local and regional transportation networks. As noted, since 1790 many states and private companies had been building roads and canals without any federal money. After the twin shocks of the War of 1812 and the Panic of 1819, most of the Union's 21 states experienced a new wave





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Checks for the enlargement of the Erie Canal, dated July 26, 1842 and September 14, 1849. The Erie Canal was a prime example of the mixed financing model that combined investor dollars and public monies.

of infrastructure construction. They used a mixture of investor dollars and public monies to fund many projects, with the 365-mile Erie Canal being a prime example of this mixed financing model. By the end of Madison's presidency, half a dozen companies were operating primitive versions of short-line railroads, and they were doing so without any federal funding.

From 1825–29, President John Quincy Adams enthusiastically embraced the federal role in the development of internal improvements. This President approved congressional appropriations for many projects. He also authorized the purchase of stock in several canal companies and the distribution of more federal land grants to companies building turnpikes and canals. Even with these clear signs of presidential support, Congress remained unwilling to develop a plan for an integrated system of national transportation improvements or to pass a constitutional amendment addressing the federal role in financing such a program.

At the time, only the most insightful seemed to appreciate an ominous change in the attitude of many congressmen as they contemplated internal improvements. Lawmakers had always acted based on their own local and partisan concerns. In the 19th and 20th congresses, however, their votes began reflecting the growing differences between East and West, as well as North and South. Southern legislators in particular began demonstrating their concern that a federal government empowered to interfere in one aspect of their states' prerogatives would be tempted to exercise its influence over others, including the maintenance of their "peculiar institution." All the same, growing public demands insured that the construction of all types of internal improvements continued apace. During Adams' one term in office, federal spending on those projects exceeded $3.8 million.

In his 1829 inaugural address, President Andrew Jackson called for a less intrusive and less active federal government. Jackson no had objection to using federal funds for river and harbor improvements, such as breakwaters and piers, and for related aids to navigation such as lighthouses. The Constitution did indeed permit spending on such projects in the furtherance of national defense. The President also supported the establishment of improved transportation networks throughout the incorporated territories in the West and the South. While he acknowledged the federal government's role in that work, he insisted that the individual states, not the federal government, were responsible for such projects within the Union's formal boundaries.

In May 1830, Jackson demonstrated his opposition to direct federal involvement in internal improvements within the states by vetoing a federal investment in the company building the Maysville Road turnpike in Kentucky. He also suggested the sale of all existing ownership interests in such projects. The President did sign a bill extending the Cumberland Road, but he relinquished federal authority over that road by transferring the responsibility for future improvements to the several states through which it ran.

During his eight years in office, President Jackson supported more than $14 million worth of internal improvements, mostly throughout the territories. In his March 1837 farewell address, the President took credit for ending the federal government's role in financing internal improvements in the states. More accurately, he put a stop to the on-again-off-again efforts to establish an integrated, federally financed system of transportation links throughout the Union.

Despite President Jackson's actions, internal improvements remained very popular across the nation. Many states amended their constitutions to provide financial support for roads, canals and railroads, even if doing so meant incurring more debt. Collectively, the states that had issued about $25 million worth of bonds during the 1820s floated more than $40 million worth in the first half of the 1830s, and almost $108 million more from 1835-37. Some $109 million of their combined total debt of $172 million at the end of 1838 had been earmarked for turnpikes, canals and railroads.

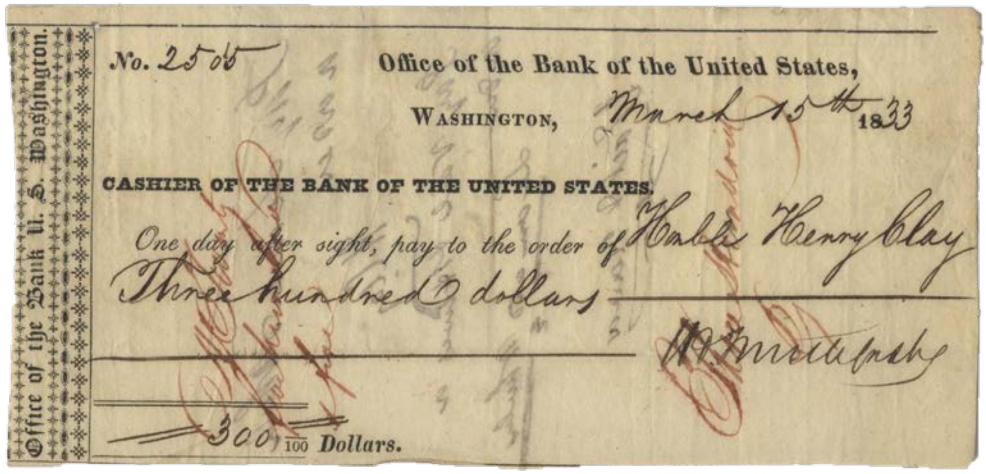
The Panic of 1837 had a devastating impact on the construction of internal improvements. During the presidency of Martin Van Buren (1837–41), federal spending in that area fell to $7.5 million, much of which involved improvements to rivers and harbors. Many states defaulted on their debts; others amended their constitutions to prohibit spending

on internal improvements or investing in private companies building them. Many companies went bankrupt and left internal improvement projects unfinished. Federal funding remained anemic for years; it totaled just over $3 million in each of the one-term administrations of Presidents William Henry Harrison/John Tyler (1841–45) and James K. Polk (1845–49). Nevertheless, some railroad builders found sufficient funding in the 1840s to add more than 6,000 miles of track to the nationwide total of just over 3,000 miles in existence at the beginning of that decade.

External events, such as the settlement of Oregon Country in 1846, the acquisition of southwestern lands from Mexico in 1848 and the discovery of gold in California in 1849 influenced the next phase of federal action on internal improvements. By 1850, states and private companies had come to consider railroads the best type of thoroughfares for transportation and commerce. The budgets for constructing such projects dwarfed those of most roads and canals. Moreover, they required the acquisition of large segments of undeveloped land. When he acceded to the presidency after the death of Zachary Taylor in mid-1850, Milliard Fillmore became the first President in years to fully support federal financing of internal improvements. He approved the spending of more than $4 million on such projects during his two and a half years in office. In response to one particular request, the President approved a bill granting 3.7 million acres of federal land in Illinois, Alabama and Mississippi for the construction of a network of railroads connecting the Great Lakes with the Gulf of Mexico.

During the rest of the decade, Presidents Franklin Pierce and James Buchanan approved a combined total of $20 million worth of spending on internal improvements. Much of this funding supported road-building in the West and the construction of lighthouses and other navigational aids to sustain the burgeoning increase in commercial trading along the country's coastlines. The federal government also oversaw the distribution of thousands of acres of land grants and rights of way to more than six dozen railroad companies.

In these closing years of the antebellum era, Congress devoted a lot of time and energy debating the best way to extend the efficient and practical network of railroads



Check drawn on the Second Bank of the United States and payable to the Honorable Henry Clay, March 15, 1833. Clay, along with Representative John Calhoun, introduced a bill to establish a fund to finance the construction of roads and canals, but it was vetoed by President Madison.

Collection of the Museum of American Finance; Sanford J. and Patricia Mock Collection

in the eastern half of the country to the rapidly growing western region. As early as 1845, New York merchant Asa Whitney had presented a plan for a transcontinental railroad, i.e. one that would connect the eastern railroad terminuses at the Missouri River to locations on the Pacific coast. In 1853, Secretary of War Jefferson Davis had the Topographic Corps survey several possible routes. But a divided Congress took no action on any of several proposed plans for construction.

It seems clear from this review that the federal government's attitude towards financing improvements to the country's transportation network took many twists and turns from 1790 to 1860. Initially, neither Congresses nor Presidents thought such a role was appropriate or desirable in a new Republic with a strong tradition of states' rights. As the 19th century unfolded, however, the growing country seemed to demand an expanded federal role in financing much-needed roads, canals and railroads. Some Presidents used the absence of clear constitutional authority as a reason for vetoing proposals for federal financing of such projects; others found ways to get around that lack of explicit authority.

Throughout the period, even congressmen who backed projects that would help their local and sectional interest did not see fit to authorize a constitutional amendment that would codify the federal role in financing these improvements. By 1860, the nation had more than 39,000 miles of turnpikes and toll roads, 4,000 miles of canals and 30,000 miles of railroad tracks running through every state and territory.

Different historians have come up with different figures for the total costs of these internal improvements. All agree, however, that the federal government contributed between 10% and 15% of the total. State and local governments, as well as many private investors, provided the vast majority of the funding for the transportation network that had finally begun to tie the country together on the eve of the Civil War. $

Michael A. Martorelli is a Director Emeritus at Fairmount Partners and a frequent contributor to Financial History. *He earned his MA in History from American Military University.*

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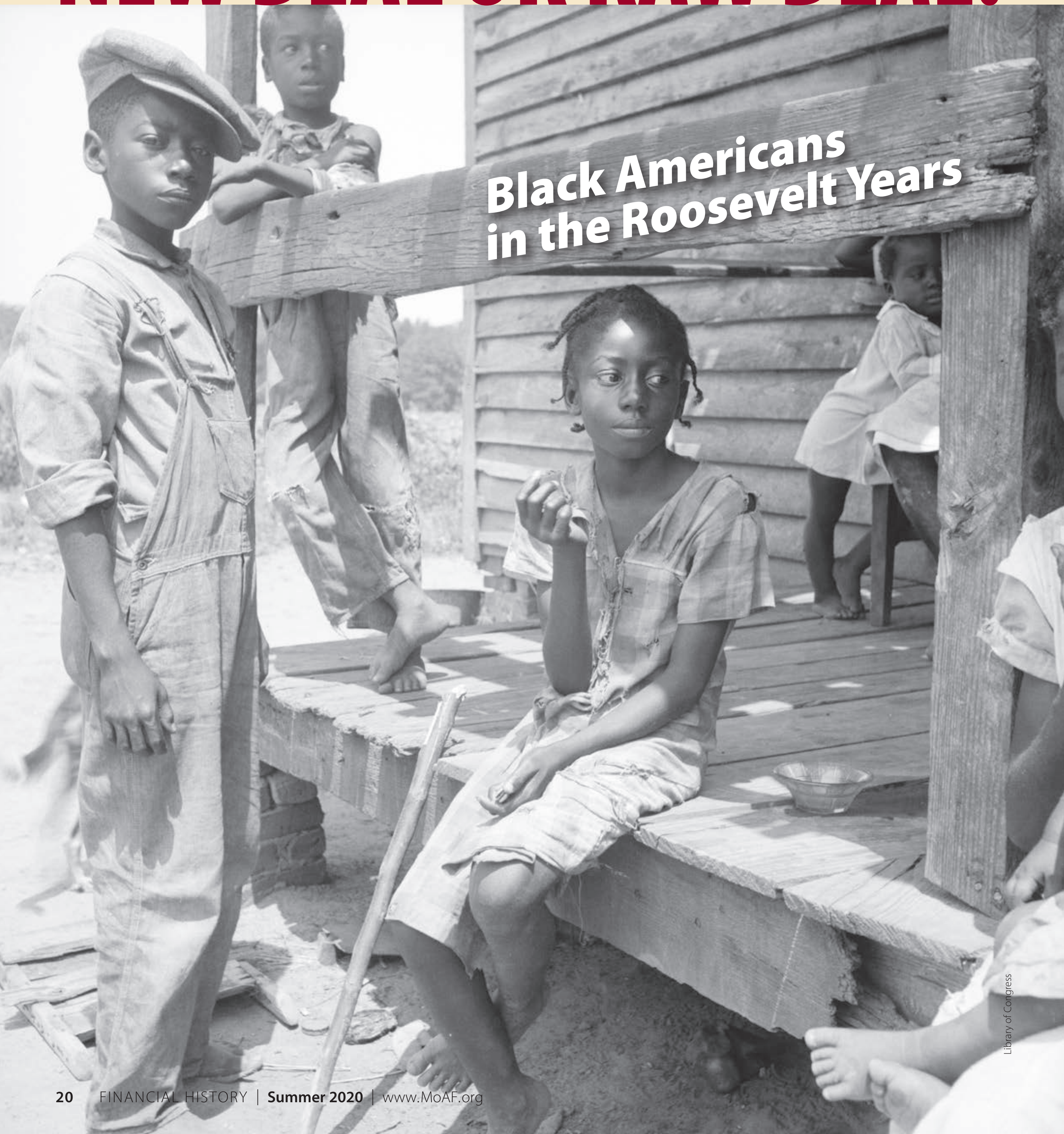
NEW DEAL OR RAW DEAL?



Black Americans in the Roosevelt Years

Library of Congress

By Jill Watts

During the presidency of Franklin D. Roosevelt, Black Americans were appointed to federal posts at historically large numbers. Together they eventually formed an advisory body known as the Black Cabinet, which was led by the crusading educator Mary McLeod Bethune and the brilliant economist Robert Weaver. But early on Black inclusion was met with stiff resistance, and appointees had to fight for both a voice in the administration as well as relief for the Black community.

In August 1933, Robert Weaver returned to his academic post at Greensboro's North Carolina Agriculture and Technical College. He dreaded going back. While he was a popular professor, he found teaching there a chore. He felt smothered by Greensboro's omnipresent segregationist traditions and laws; he isolated himself, refusing to patronize segregated stores and entertainment venues.

In Greensboro and its surroundings, Weaver became exposed to the rawest versions of white southern racism. As he traveled in and out of town, he passed sharecroppers' shacks and the cotton and tobacco fields where Black farmers barely scratched out a living. The Depression had hit North Carolina hard. By fall 1933, 25% of all families there depended on some kind of public or private assistance; the NAACP estimated that the rate was far higher for the Black rural population.

And poverty haunted not only rural areas but also the cities. The textile industry was one of North Carolina's largest employers, and it had collapsed with the Depression's onset. Large textile mills stood on the hills surrounding Greensboro—they had dominated the city's economic life. As the economy deteriorated, Black mill workers were laid off or cut back to starvation wages at a far greater rate than white workers.

Impoverished Black children in the Mississippi Delta, July 1936. Dorothea Lange, photographer.

At night, Weaver meticulously pored over the numbers, mining them for irrefutable proof that Black communities were in a downward spiral. That summer he tracked the data of 12,000 Black cotton-mill workers nationwide who had managed to hang on to their jobs. He determined that 75% of them were grossly underpaid and overworked, despite the National Recovery Administration's mandates regarding minimum wages and maximum hours. Times were hard and people took any job they could get—even if they earned almost nothing. This was, as Kansas City's *Plaindealer* pointed out, a "new kind of slavery."

As Weaver walked Greensboro's Black neighborhoods, he witnessed firsthand the impact of the Great Depression and the suffering it caused. Families were homeless; children went hungry. For Weaver, the experience marked the beginning of a transformation. His determination to resist American racism grew. "The lash of prejudice is not the overt lash; it's the subtle lash of feeling yourself up against an iron block of prejudice that is the most cutting. Because I had been protected, I felt the cut more deeply," he reflected.

The Robert Weaver who came to Greensboro was a man of limited but rare privileges. In 1933, he was only 26, but he was impressive in nearly every way. Handsome, with a chiseled jaw and a sly smile, Weaver radiated confidence, pride and dignity. His grandfather, DC dentist Robert Tanner Freeman, remained a celebrated figure in Washington's Black community. His grandmother, Rachel Turner, born out of wedlock to white parents, had been raised by an African American family and lived her life as a Black woman. Weaver's mother, Florence was born shortly before her father's early death. Rachel Turner remarried in 1890—and well at that. Her second husband, Albert J. Farley, was a clerk for the Supreme Court, and his salary enabled the family to move to the middle class, interracial Washington, DC suburb of Brookland.

Weaver's father, Mortimer Grover Weaver, came from far humbler origins. He was born on a farm in Fauquier County, VA. His mother was a domestic and his father was a former white slaveholder who had sided with the Confederacy. As a child, Mortimer worked in the fields. But when he reached his teens, he was sent off to attend high school in the District of Columbia. A few years after graduation, he secured a prized position in the city's post office. A careful guardian of his earnings, Mortimer Weaver saved his money and, in 1901, married Florence Freeman. He purchased a home in Brookland and, eventually, a seaside cottage for weekend getaways. The Weavers quickly added two sons to their family, Mortimer Grover Jr. and Robert Clifton.

The Weavers were intensely proud of their sons and were determined that they should have the finest that could be offered to African American children. The closest Black secondary school was the top in the country—Paul Laurence Dunbar High School. Dunbar was rigorous and challenging, requiring students to master all academic disciplines. In Weaver's era, 80% of the school's graduates attended northern colleges; many were admitted to the most prestigious in the nation.

Robert Weaver graduated near the top of his class at Dunbar. In 1925, he enrolled at Harvard and declared an economics major. After finishing his bachelor's degree with honors, he then attempted to do what no African American had ever done before—earn a PhD from Harvard's extremely conservative economics department. It was not a welcoming environment. Weaver remembered that the department's most influential scholar, Frank Taussig, "didn't think that Black men had aptitude for economics." Nonetheless, Weaver excelled. After passing his comprehensive examinations with high marks, he focused on crafting his thesis, entitled "The High Wage Theory of Prosperity." In 1931, he headed to Greensboro to teach.

On weekends, he often returned to Brookland to work with his long-time friend John P. Davis. They founded an

Bettmann

Mary McLeod Bethune, Black Cabinet leader and the National Youth Administration's Director of Negro Activities, First Lady Eleanor Roosevelt and NYA Executive Director Aubrey Williams at the opening session of the National Conference on Problems of the Negro and Negro Youth sponsored by the NYA in Washington, January 7, 1937.

organization, the Negro Industrial League, dedicated to exposing the weaknesses becoming alarmingly apparent in the New Deal's main jobs program under the National Recovery Administration. Testifying before congressional committees throughout 1933, Davis and Weaver gained increasing attention in the Black press with Davis emerging as the charismatic leader and Weaver appearing as the dignified academician with the facts and figures.

Weaver had also set his sights on a government job. In the spring of 1933, just after President Franklin D. Roosevelt took office, he had begun attempts at securing a federal post. Government work had been a tradition in the Weaver family and among their social set. Yet, like other African Americans seeking federal employment as the New Deal dawned, Weaver was repeatedly rejected. That summer, after the Negro Industrial League made its first splash, Davis began lobbying for the National Recovery Administration to give his partner a position. The agency's answer was a flat no.

In late August 1933, Weaver learned that the Roosevelt administration had established the Office of the Special Adviser on the Economic Status of Negroes. The idea had originated with the Rosenwald Fund's Edwin Embree and Will Alexander, who had been peddling it around Washington throughout the summer. Alexander had become convinced that Roosevelt "was a sort of messiah" and that "perhaps the next stage in race relations in this country would sort of center around what happened in Washington, DC." The Rosenwald Fund proposed to underwrite the special adviser's salary and office expenses for the first few years. That would allow Roosevelt to avoid a confirmation process that might trigger retaliation against the New Deal by southern Democrats, who consistently opposed any kind of support for African Americans.

Reportedly, the Secretary of the Interior, Harold L. Ickes, a Chicagoan with Rosenwald ties, finally got the plan in front of the President. Ickes could be irascible, but as the past president of the Windy City's NAACP, he had established a reputation for being liberal on the issue of race. Roosevelt approved the proposal and placed the office under Ickes, allowing him to choose the man to occupy the special adviser's position. Rather than consult with the many African American leaders he knew personally, Ickes demanded Alexander and Embree provide him with a list of names. Ickes picked the last name on their list—Clark Foreman, a white southerner.

The reaction from the Black community was shock and dismay. The NAACP

Cornell Capa

Clark Foreman, first head of the Office of the Special Adviser on the Economic Status of Negroes, pictured in 1946 at a Citizen's Political Action Committee meeting.

Bettmann

In 1934, Black Cabinet founder Robert C. Weaver would succeed Clark Foreman and take over leadership of the Office of the Special Adviser on the Economic Status of Negroes. Weaver became the first Black American to serve in a White House Cabinet after President Lyndon Johnson appointed him the Secretary of Housing and Urban Development in 1966.

telegrammed Ickes, protesting that there were numerous African Americans, with equal or superior educational credentials, better suited for the job. *The Chicago Defender* observed, "It was certainly bad enough to select any white man for this particular post, but to select one from Georgia was certainly adding insult to injury."

After Foreman's selection was announced, the NAACP's Roy Wilkins confided to the Associated Negro Press's wire-service editor Claude Barnett that the Rosenwald Fund had intentionally made an end run around the NAACP. In his opinion, the special adviser would accomplish nothing; the naïve Foreman had been put in to block, rather than to address, Black grievances. Wilkins declared that the NAACP would call for the appointment to be "bitterly fought by all Negro organizations, especially the Negro press, not on the grounds that Foreman is personally objectionable, but that no white man can speak for Negroes in this time of stress."

This was the message the NAACP's lead Washington attorney, Charles H. Houston, carried directly to Ickes. Face-to-face with Ickes, he argued that an African American appointee was far more qualified to be a special adviser on issues critical to Black Americans. Ickes emphatically disagreed. The "time" was "not ripe" for a Black appointment, he sputtered. A white man had access to people and places, both on Capitol Hill and in the South, that were off-limits to Blacks.

Houston next confronted Foreman, who, after some waffling, admitted that he too believed there were more capable African Americans who could have filled the special adviser's job. In an attempt to demonstrate his commitment to Black inclusion, Foreman pledged to fill out his staff with Black assistants and secretaries. He would carry his fight against discrimination beyond the Interior Department and battle it in agencies throughout the federal government.

The Black community had good reason to be skeptical of Foreman. While he was an eager champion of Black causes and had worked on racial affairs for both the Rosenwald Foundation and Alexander's Commission on Interracial Cooperation, Foreman's Georgian roots ran deep and were tied to the slaveholding past. His grandfather had fought for the Confederacy and had been a leader among white southern Democrats. Foreman was raised in the traditions of the white South, where racial divisions were a given and African Americans were presumed naturally to occupy an inferior position in society.

But by 1933, the 31-year-old Foreman had rejected white Southern ideologies and had amassed an impressive résumé. He had studied at Harvard, where he met W.E.B. Du Bois. After finishing a doctoral dissertation on Black education at Columbia University, he worked for Will Alexander on race relations. Despite these accomplishments, Foreman had not been the top choice of either Alexander or Embree for the special adviser post. He possessed an abundance of reckless youthful energy and zeal that some, both Black and white, found insufferably brash and overbearing.

When Foreman landed in the Department of the Interior in August 1933, he found plenty of problems. He confirmed that the studies Weaver and Davis had produced were true: The National Recovery Administration's jobs programs were either turning African Americans away

or paying Black workers disastrously low wages. He also discovered that racial bias ran rife throughout the New Deal.

New Deal discrimination was increasingly institutionalizing racist practices into programs and policies at the federal level, and Foreman embraced the fight to end it as his personal mission. One of his first acts was to decline to accept a secretary from the all-white federal pool and demand that Ickes allow him to hire an African American woman. The interior secretary agreed and said he knew just the right person—a fellow Chicagoan, Lucia Mae Pitts.

Besides being a top-notch secretary, Pitts brought to the special adviser's office the much-needed perspective of a Black woman. After completing her secretarial degree, Pitts worked for the Tuskegee Institute, a New York theater, Atlanta's African American newspaper syndicate and the Federal Council of Churches. In the early 1930s, she landed a job in the Illinois House of Representatives' stenographic pool. The pool's only African American secretary, Pitts endured the frigidity of her white coworkers and elected officials. But one figure welcomed her, Anna Wilmarth Ickes, a representative from Winnetka, IL, and the wife of Harold Ickes, who was then a crusading local reformer.

Hulton Deutsch

President Franklin D. Roosevelt greets scientist and inventor George Washington Carver with a handshake during his second term of office, at a time when whites generally refused to shake hands with African Americans.

When Foreman came calling, Pitts had fallen victim to the state of Illinois's Depression-era layoffs. She jumped at his offer and headed to Washington. On September 5, 1933 she became the first African American woman to serve as a secretary to a white federal administrator at the capital.

Pitts was eager to work but she refused to be flattered and, like other African Americans, harbored serious reservations about Foreman. At the beginning, she maintained a cool, yet professional distance from her new boss. Foreman later described her attitude as "rude," while she characterized it as "unbending."

Pitts remembered the New Deal's formative period as "hectic and busy." Relief and recovery programs were organized and reorganized rapidly. Some were housed within preexisting divisions in cabinet departments; others were new, independent agencies whose purpose required oversight from one or more cabinet secretaries. There was competition among programs and cabinet secretaries, especially for funding. But all those serving in the New Deal realized the seriousness of their charge; they were there to rescue the nation from economic catastrophe. Foreman had already rushed into battle. He spent long days trying to pressure cabinet officials and New Deal heads to appoint African Americans to their divisions.

The iciness between Pitts and Foreman quickly thawed, as she became convinced of his sincerity. He spent long hours in the office receiving individuals and delegations asking for help for themselves or economically devastated Black communities. Pitts not only witnessed but also contributed to the expansion of African American federal appointments, as Foreman sought her recommendations for expanding the Black secretarial corps. He also immediately added "field representative" to her list of duties and dispatched her to Virginia Beach to survey the damage from a deadly hurricane that had left numerous Black families homeless.

While Foreman may have earned Pitts's respect, he still had a long way to go with the Black public. He knew that with each passing day, African Americans were tumbling deeper into economic despair. He tenaciously charged ahead pushing for jobs and resources for Black citizens. He aggressively buttonholed Roosevelt's cabinet heads and became an unwelcome figure in cabinet and New Deal offices.

Foreman eventually stumbled onto one official willing to hear him out, Secretary of Commerce Daniel C. Roper. A fellow southerner, Roper was eager to do damage control on race relations. The Commerce Department was a major player in the National Recovery Administration, and Roper had taken much of the heat for that program's bigoted practices. Roper had compounded his problems by dismissing a respected African American appointee, a Republican holdover who advised the department on Black-owned businesses. Then he made an unpopular decision even worse by abolishing that position. African Americans demanded the secretary restore the post and either rehire its previous occupant or find a replacement. So, when Foreman came calling in the late summer, Roper seized the chance to fix his public image.

At Foreman's suggestion, Roper agreed to sponsor a conference on the economic

problems of African Americans. The Justice Department's Black adviser Robert Vann was recruited to chair the meeting, which included Black intellectuals, leaders and activists from across the nation. They met in Washington in September 1933 and for two days discussed strategies to speed up relief to Black communities.

The high point of the conference came when Roper, while addressing the gathering, announced his plan to restore the recently eliminated African American post. He then asked the group to put forward names for the position. While the delegates may have been encouraged to hear that Commerce would hire a Black adviser, they agreed that no one person could handle the overwhelming needs of Black America. At the end of the meeting, they informed Roper that they had organized themselves into an official advisory committee. Although they insisted on being based in the Commerce Department, they demanded review power over all decisions affecting African Americans throughout the New Deal. John P. Davis seized the opportunity and lobbied for the department to include Weaver on the advisory committee. He was told no.

While some noted that the Commerce Department's advisory committee on African American affairs threatened to compete with Foreman's office, no doubt many realized that it also had the potential to emerge as the New Deal's Black Cabinet. But that hope died quickly. In the end, Roper named the Urban League's Eugene Kinckle Jones to the Commerce post.

Tall, charming and athletic, the Urban League executive, at the age of 48, was strikingly fit and distinguished. Raised in Richmond, VA, the son of two respected and race-conscious college professors, Jones had been given many opportunities, and he embraced the responsibility of challenging American racism. After earning degrees at Virginia Union and Cornell, he took a job as a field inspector for the Urban League in 1911. The organization was only a year old, and he fully embraced the chance to shape the Urban League's programs dedicated to addressing the conditions faced by African Americans in the cities. In 1917, he became the organization's executive secretary.

Jones's addition to the New Deal team was received with applause, in part prompted by Commerce Department press releases. *The New York Times* celebrated Jones as "one of the foremost authorities on the problems of Negro life in the cities." Jones's achievement was certainly a milestone. When he arrived on the job in late October 1933, he became the first upper-level leader of a national civil rights organization to occupy an advisory post in the federal government.

Yet for Jones, the transition from Urban League head to Commerce Department adviser was rough. Despite his efforts to rise above the quarrels over his appointment, he entered office under a cloud of suspicion. Additionally, to some Jones seemed a bad fit. A nationally recognized specialist in Black labor, he now headed a division dedicated to the recovery and expansion of Black businesses.

Although Jones was hired at $5,600 a year (a respectable salary although lower than that of other New Deal officials) and given a spacious suite with two offices, he had no staff and no authority to pursue projects or investigations. It quickly appeared that his role in New Deal relief, outside of serving as the subject of a publicity campaign, was murky at best. Jones soon found himself under a mountain of complaints regarding New Deal inequalities, many from the Urban League itself. With no resources, he was blocked from offering any response.

The fanfare around Jones's appointment was certainly not enough to satisfy those demanding that Roosevelt respond to the crises in Black America. Stories of African Americans struggling against poverty filled the pages of the nation's Black newspapers. Already cash-poor communities watched helplessly as food and fuel prices started to rise when National Recovery Administration wage and price regulations kicked in. As the cost of living increased, Black incomes continued to plummet. One African American journalist reported that "a conservative estimate would place 90 percent of Harlem's population in the breadline."

Howard University Professor Kelly Miller urged African Americans to abandon cities and return to the countryside, where they might make a living off the land. "The city Negro has no definite function or assured status," he told *The New York Times*. "The farm is the Negro's best chance and the best help the government can render him in this emergency is to aid him to avail himself of this chance." Foreman agreed and began to advocate for African Americans to be admitted to the programs run by the Division of Subsistence Homesteads, which placed families on collective farms to communally work the land. Those programs had only accepted white applicants and turned away Black Americans seeking aid.

Far from making him more popular, Foreman's proposal actually damaged his reputation further. He did not advocate for African Americans to be integrated into preexisting projects. Instead he called for separate Blacks-only collective farms. Such plans convinced some Black leaders that the white southerner was really in the business of promoting segregation.

Furthermore, the justice system continued to fail Black citizens in the most horrific ways. Throughout the summer and fall of 1933, the national media was filled with stories of the "Scottsboro Boys," nine African American youths, ranging in age from 13 to 20, who had been arrested for allegedly gang-raping two young white women. While there were both Black and white Americans who spoke out on behalf of the accused, establishing that the charges were groundless, in late fall two of the nine were found guilty and sentenced to die in the electric chair by an Alabama jury. (All nine were much later exonerated.)

About the same time, George Armstrong of Princess Anne, MD, was jailed for an alleged assault of a white woman. While he awaited a hearing and an opportunity to defend himself, a white mob pushed past 25 state police officers assigned to protect him, dragged him through the town, hung him and then burned his body.

Just over 130 miles away, in Washington, DC, President Roosevelt sat silent in the White House. $

Jill Watts is a professor of history at California State University San Marcos. In addition to The Black Cabinet, *she is also the author of* Hattie McDaniel: Black Ambition, White Hollywood.

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PAUL J. RICHARDS

Presidential Impeachment and US Stock Markets

By Peter C. Earle

A BROAD ARRAY of academic studies find a connection between political stability and economic growth. It's intuitive: as the setters and overseers of the "rules of the game," elected and appointed government officials have a direct impact upon fiscal, monetary and regulatory policy. If those policies are consistent over time and thus predictable, firms can budget and plan—which in turn sets the stage for economic growth.

Compared with other nations, the United States has had a consistent record of political stability, with a few brief exceptions: the American Civil War, in particular. (Even during the War of 1812, during a foreign invasion, political rule remained essentially intact.) The United States has also experienced little unforeseen presidential turnover, with a single resignation and a few assassinations. One might argue that presidential impeachments are the closest the United States ever comes to true political uncertainty.

This article examines the stock market effects of presidential impeachment proceedings. We likely need not ask *whether* impeachment proceedings affect the financial markets; rather, we seek to determine *how* impeachments affect the financial markets. But rather than jump directly to the three historical episodes (Andrew Johnson, Bill Clinton and Donald Trump), we will first examine market reactions to three proposed elements of impeachment concerns individually, and then compare them to what equity markets actually did during and after the three impeachments. The three elements are: general uncertainty; concern about the succession of key persons; and worries specifically associated with the removal of a US President (outside of elections).

Members of the House Judiciary Committee discuss articles of impeachment against US President Bill Clinton on Capitol Hill in Washington, DC, December 11, 1998.

Our equity market benchmarks will be US equity indices: usually the Dow Jones Industrial Average, but occasionally others.

But first, a few caveats. First, no market moves in response to a single cause; for that reason, one cannot attribute the entirety of a move in prices, or the lack of a move, to one specific event. Second, one is well advised not to use the price fluctuations of stock indices, at least not alone, to draw major sociological conclusions. And finally, over the period under examination (from 1868 to 2020) the size and complexity of stock markets increased tremendously. The longer the time period between events, the less relevant comparisons between them tend to be.

I: General Uncertainty

The prospect of an impeachment creates great uncertainty, and uncertainty is the bane of financial markets. Because the United States is the largest economy in the world, the issuer of the world's reserve currency and at the center of a massive network of global trading relationships, an injection of sizable uncertainty spells concern for not only Americans but foreign governments, as well as global investors of all stripes. As a first step, I examine the impact of a series of unexpected events upon the US equity markets.

Few would be surprised to hear that financial markets are notably averse to sudden increases in unpredictability. The average decline among these events shall serve as an initial, if incomplete, benchmark (see Table 1).

II: Unexpected Removal of Key Officials

To consider the financial impact of the removal of a high-level decision maker, consider this element of impeachment by analogy: how do stock prices react when key personnel leave a company unexpectedly?

CEOs

According to CNBC anchor Jim Cramer, unexpected resignations are a major red flag for investors: "When you see

TABLE 1: Market Impact of Events Generating Sudden, Extreme Uncertainty

Event	Next market date	1 day ret (DJIA)
Pearl Harbor attacks	Dec 8–9, 1941	–6.30% (2 days)
Beirut Marine barracks bombing	23-Oct-83	0.10%
WTC truck bombing	26-Feb-93	1.00%
Oklahoma City bombing	19-Apr-95	0.70%
Khobar Towers bombing	26-Jun-96	–0.64%
Kenya & Tanzania Embassy bombings	7-Aug-98	0.24%
Monday after 9/11	17-Sep-01	–7.10%
Bank bailout (TARP) rejected	29-Sep-08	–7.00%
Trump: "Coronavirus may last until August"	16-Mar-20	–12.93%
		–3.55%

unexpected resignations among key executives… maybe you should go too." Most individuals do not leave a high-paying position they've spent decades jostling for under unremarkable circumstances.

While numerous factors influence the market reaction (such as the stock performance under their tenure, the existence of a clearly defined succession plan, etc.), consider a few such studies. *Fortune* (2019) reports that "companies whose CEOs departed saw their stocks' returns drop an average of 4.19% in the 30 days following compared to the S&P 500." Larcker and Tayan (2012) cover 12 CEO deaths between 1994 and 2012 and report that the stock price on the day of the executive's death fell by 2.01% on average. And Salas (2010) indicates that the sudden death of a CEO leads the stock price to fall immediately by 0.64% on average.

Other Corporate Executives

The impact upon stock prices of the resignation or termination of other managers depends largely upon the circumstances leading up to the change. Agrawal and Chen (2008), for example, report that "stock prices decline significantly (both statistically and economically) upon news of these events" and that "firms [with internal management disputes] have poor operating performance in the years surrounding the dispute episode, and experience significantly greater incidence of stock market delisting in the years following." They find that the cumulative average abnormal return is –2.6% between the day before the episode and the day after and –6.1% between 10 days before and one day after. It is even larger, –3.9% or –10.3%, if the resigning director is an insider. Worell, Davidson and Glascock (1993) find a statistically significant price *increase* of 2.3% in the case of forced resignations, no doubt indicating that in those cases, investors were relieved and looked ahead to an improved future. Context, as always, is pivotal (see Table 2).

III: Removal of a US President (Outside Term of Office)

In addition to general uncertainty and fears arising from the removal of any key decision maker, the impeachment of a US President introduces worries unique to the circumstances surrounding the removal of an elected official with significant influence over both the United States and the world at large—not only economically but geopolitically. Domestically, the impeachment introduces significant uncertainty surrounding such executive powers as the veto, the ability to issue executive orders, the tenure of Cabinet appointees, the possible abruption of policy initiatives and so on.

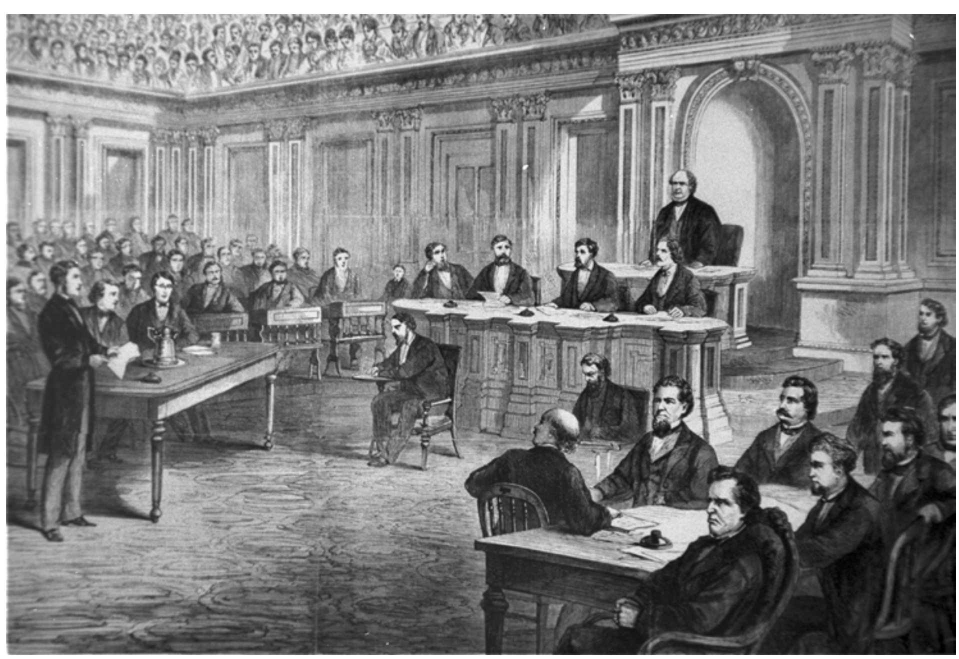
The unscheduled exit of a President may occur for several reasons besides impeachment: resignation, assassination or invocation of the 25th Amendment (concerning inability "to discharge the powers and duties of his office"). I now consider the stock market returns associated with these types of episodes.

Resignation

The day after the August 8, 1974 announcement of Richard Nixon's resignation, the Dow Jones Industrial Average fell 1.3%. (An important side note: by September 1, 1974, the index had fallen over 15%.)

Assassination Attempts

Several weeks before his inauguration in early 1933, an attempt was made on the life of Franklin Delano Roosevelt. Although he was unhurt, equities fell by slightly over 2% the next day. In September 1975, two assassination attempts were made against Gerald Ford. In the first, undertaken by former Mansonite Lynnette "Squeaky"



Library of Congress

An engraving showing the impeachment trial of President Andrew Johnson in the Senate, March 13, 1868.

Fromme, the weapon didn't fire and the attempt had little if any effect on US equities. In the second, the weapon fired but Ford was unhurt; the following day, markets fell roughly 0.5%.

The March 1981 attempt on the life of Ronald Reagan was far more serious. Today we know that if Hinckley's bullet had struck one inch to the right, or the hospital had been farther away, the wound would likely have been fatal. At the time, Reagan's injuries were described as serious but survivable, and between the time of the news release and the market's 4:00 P.M. close, stocks fell roughly 0.25%. The next day, stocks rallied strongly.

Assassinations

Bearing in mind that US equity markets were orders of magnitude larger under John F. Kennedy's administration than under Abraham Lincoln's, presidential assassinations have an extreme impact as they bring to the fore existential political fears. A 2014 Harvard University paper by Baker, Frydman and Hilt entitled "From Plutocracy to Progressivism? The Assassination of President McKinley as a Turning Point in American History" attests to the importance of worries about policy. It finds that "firms with vulnerability to antitrust prosecution saw greater decreases in their valuations following the assassination, suggesting that regulatory forbearance was an important mechanism by which firms benefited during McKinley's presidency."

Lincoln's murder occurred while North-South tensions were still high following the end of the Civil War. McKinley was shot by a putative anarchist amid growing concerns about armed leftists and nihilist insurgents. Kennedy was shot when the Cold War was heating up. As Robert Stovall, then a 37-year-old director of research at the erstwhile investment bank E.F. Hutton in New York City, recalled, "We thought the Kennedy assassination might be followed up by an even more serious incident.…We thought there might be a follow-up attack."

How did the killings affect markets? Markets were closed the day Lincoln died (Saturday, April 15); on Monday, April 17, they fell approximately 0.7%. James A. Garfield was shot on July 2, 1882. That day, stocks fell 3.3%. (He died just short of 80 days later.) William McKinley was shot on September 6, 1901 and died eight days later. Equities on the New York Stock Exchange fell 6.2% the following day. And Kennedy was shot on November 22, 1963 and died shortly thereafter. Between roughly 1:30 P.M. and 2:07 P.M. EST when trading was halted, markets fell 2.8%.

25th Amendment

Section 4 of the 25th Amendment covers the removal of a President who, owing to physical or mental ailments, has become unable to discharge the duties of office. While it has never been invoked, perhaps the closest approximation to the way the stock market would react is exhibited in the response to President Dwight D. Eisenhower's heart attack while playing golf on September 24, 1955. (Today, over 90% of individuals suffering heart attacks survive, but at that time the prospects were grimmer.) Although he survived, the Dow Jones Industrial Average fell over 6% after the news was broadcast (see Table 3).

Impeachment

How have impeachments impacted markets? We have three episodes for empirical reference: the impeachment trials of Andrew Johnson, Bill Clinton and Donald Trump, all of which ended in acquittal.

Andrew Johnson

After discharging Secretary of War Edwin Stanton, Johnson faced 11 articles of impeachment. He was impeached in February 1868 on charges of violating the Tenure of Office Act; for voicing "intemperate, inflammatory and scandalous harangues" and "loud threats and bitter menaces" against both Congress and the laws of the United States; and for unlawfully challenging the authority of the 39th Congress. Between May 16, 1868 and May 26, 1868, first one article and then two more were considered and failed to pass the two-thirds-majority threshold. The trial was adjourned, and the remaining eight articles were dropped.

Bill Clinton

In December 1998, President Bill Clinton faced two articles of impeachment for perjury and obstructing justice relating to the Monica Lewinsky scandal. On February 12, 1999, the Senate found Clinton not guilty on both articles.

Donald Trump

President Donald Trump faced two articles of impeachment which passed in December 2019: one for abuse of power and another for obstructing justice. The case centered upon the alleged withholding of military aid from Ukraine to induce an investigation of Trump's most likely challenger in the 2020 election, former Vice President Joe Biden. On February 5, 2020, the Senate found Trump not guilty on both articles.

Findings and Conclusion

The actual US equity market reactions to impeachments are shown in Table 4: between the date of impeachment and the vote date; intraday on the vote date; and finally between the vote date and two months later. This is a simple study, rife like any other with hidden variables and suffering from a small-n problem (three events, with the first nearly a century-and-a-half before the other two), but a few points are nevertheless clear.

We find straightforward, virtually uniform negative responses among the market reactions to the proposed constituent elements of impeachment fears: sudden uncertainty, key person concerns

TABLE 2: Stock Impact of Termination, Resignation or Death of Key Leaders

Source	Stock Return	Exec/time period
Fortune (2019)	–4.19%	(CEOs; in the following 30 days vs. S&P500)
Agrawal & Chen (2017)	–2.60%	(directors; cumulative avg abnormal return over day before and after)
Larker & Tayan (2012)	–2.01%	(CEOs; same day)
Salas (2010)	–0.64%	(CEOs; same day)
Worell, et al. (1993)	2.30%	(Forced resignation of directors; same day)
Average return:	**–1.43%**	

and political apocalypticism. And yet the behavior of stock indices with respect to impeachment outcomes is mostly languid between the impeachment date and the vote date (except for the Clinton impeachment, which took place during a roaring bull market) and intraday on the day of the vote itself.

But this makes perfect sense. For one thing, impeachments involve a sequential process, with updates trickling out over time. As market participants acquire information, they continually assess and revise their expectations regarding the likelihood of conviction and removal from office: trading and adjusting their exposure according to their risk appetites. Unlike terrorist attacks, management shake-ups or assassinations—each of which arrive with a shock—impeachments are characterized by proceedings through which news is slowly but steadily incorporated into stock prices: a persuasive display of the EMH (efficient market hypothesis) in action. And knowing that conviction requires a two-thirds majority

TABLE 3: Market Impact of Unexpected End of Presidency

Event	Date (in relation to event)	Market return (DJIA)
Resignation		
Richard M. Nixon	9 August 1974 (next day)	–1.30%
Assassination attempts		
Franklin D. Roosevelt	15 Feb 1933 (next day)	–2.00%
Gerald Ford	22 Sept 1975 (next day)	–0.47%
Ronald Reagan	30 March 1981 (same day)	–0.25%
Assassinations		
Abraham Lincoln		–0.70%
James A. Garfield	2 July 1882 (same day)	–3.30%
William McKinley	6 Sept 1901 (next day)	–6.20%
John F. Kennedy	22 November 1963 (same day)	–2.80% (stocks halted)
Section 4, 25th Amendment proxy		
Dwight D. Eisenhower	24 Sept 1955 (same day)	–6.00%
	Average return:	**–2.56%**

Spencer Platt

A television on the floor of the New York Stock Exchange (NYSE) shows on-going discussion of President Donald Trump's impeachment by the House of Representatives the morning after, on December 19, 2019.

TABLE 4: Market Impact of Presidential Impeachments

Impeached	Impeachment date index level	Impeach-ment date to vote date (Index level and return)			Vote date (intraday, open to close)	Vote date to two months later
Andrew Johnson	2, 3 March 1868	16 May 1868	27 May 1868*		N/A	July 1869
Index (GFD rail) level	11	11	11			12
Pct change		0.09%	1.93%			1.74%
Bill Clinton	19-Dec-98	12-Feb-99			12-Feb-99	12-Apr-99
Index (DJIA) level	8,903	9,274		**open:**	9,367	10,339
Pct change		4.17%		**close:**	9,274	11.48%
				chg	–0.99%	
Donald Trump	18-Dec-19	5-Feb-20			5-Feb-20	6-Apr-20
Index (DJIA) level	28,239	29,290		**open:**	29,048	22,679
Pct change		0.30%		**close:**	29,290	–22.57%
				chg	0.83%	
Average return:		**1.83%**			**–0.16%**	**–9.35%**

*The Johnson impeachment saw an initial vote on one count on May 16, 1868 and, after a 10-day recess, another vote on two additional counts (May 27, 1868). The trial was adjourned with the other counts never voted on.

in the Senate allows observers to discount the outcome well in advance of a vote.

Compare the market reactions to impeachment with the demise of a well-regarded corporate executive: Steve Jobs of Apple, Inc. Before he died in October 2011, he had been on sick leave for months and his uncertain health had been a drag on Apple's stock performance. When it was reported that he finally passed away, the stock fell only 0.2%, no doubt in part because expectations of his demise had mostly been priced into the stock. Similarly, the average intraday index return on the day of impeachment votes is an insouciant –0.16%.

Another conclusion can be drawn; this one from the two-month post-impeachment equity index returns: +1.74% for Johnson; +11.48% for Clinton and –22.57% for Trump. In the case of Clinton, US equity markets were within a bull market of historical proportions, in particular for technology stocks. In the case of Trump, not long after the impeachment vote the coronavirus pandemic took the world by surprise. From the perspective of the markets, impeachment fears fade quickly, with attention rapidly shifting back to macroeconomic issues.

Equity market reactions associated with the proposed constituents of impeachment concerns—general uncertainty, removal of a key decision maker and uneasiness specifically relating to the removal of the top political executive in the United States—do not approximate what occurs during and after impeachment trials.

Each impeachment case is idiosyncratic and associated with unique financial market outcomes. The gradual unfolding of what is fundamentally a political (as opposed to strictly legal) action tends to result in dampened, rather than heightened, volatility owing to the pace of the proceedings. The evidence suggests that a more profound degree of political upheaval, with a more sudden onset, is required to reliably throttle stock prices. $

Peter C. Earle is a Research Fellow at the American Institute for Economic Research.

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In Law's Debt

The Historic New Orleans Collection, The L. Kemper and Leila Moore Williams Founders Collection, 1952.3

Trade between Mexican Indians and the French at the Port of the Mississippi, between 1719 and 1721. This Mississippi Company propaganda portrayed New Orleans on what looks more like an Alpine lake—albeit one with palm trees—than the Mississippi River.

By Howard Margot

The 2018 tricentennial of New Orleans's founding by the French was observed with all due fanfare in the United States and abroad. 2020 marks the 300th anniversary of a closely related event: the collapse of the Mississippi Bubble. People are not wont to celebrate epic failures, and history's judgment of John Law, the Scottish gambler and economic theorist whose "System" created the Bubble, has not often been kind. Still, if there is *any* city that might consider honoring the architect of capitalism's first great economic collapse, it is New Orleans.

Law remains largely unknown in that city, where a Pantheon of *official* "founding fathers"—Louis XIV, Orléans, Pontchartrain, Bienville, even Crozat—enjoys toponymical immortality. But not so much as an alleyway bears the name of *Monsieur* Law.[1] France's ruling class put *its* stamp on the place, happy to let Law's name, cursed by myriad investors gone broke, be forgotten.

One effort at *not* forgetting John Law is being made at The Historic New Orleans Collection, which for years has brought together manuscripts and printed items of the period that document Law's career in France. These materials, some of which are shown here, help trace the development of his bank, his System, the Mississippi Bubble and their impact on the nascent Crescent City.

Formally educated in Edinburgh, Law chose not to follow in his family's banking business and moved to London. There, the tall, handsome, charming social climber leaped into the life of a dandy and gambler. When in 1694, barely aged 23, he killed a "romantic rival" in a duel, his life's course was fixed. Convicted of murder and awaiting sentence, Law escaped prison and fled to Holland. "On the lam" in Europe over the next 10 years, he honed his card-playing and odds-making skills which, combined with returns on investments, netted him some six million *livres tournois*[2].

The Historic New Orleans Collection, 1974.25.27.499

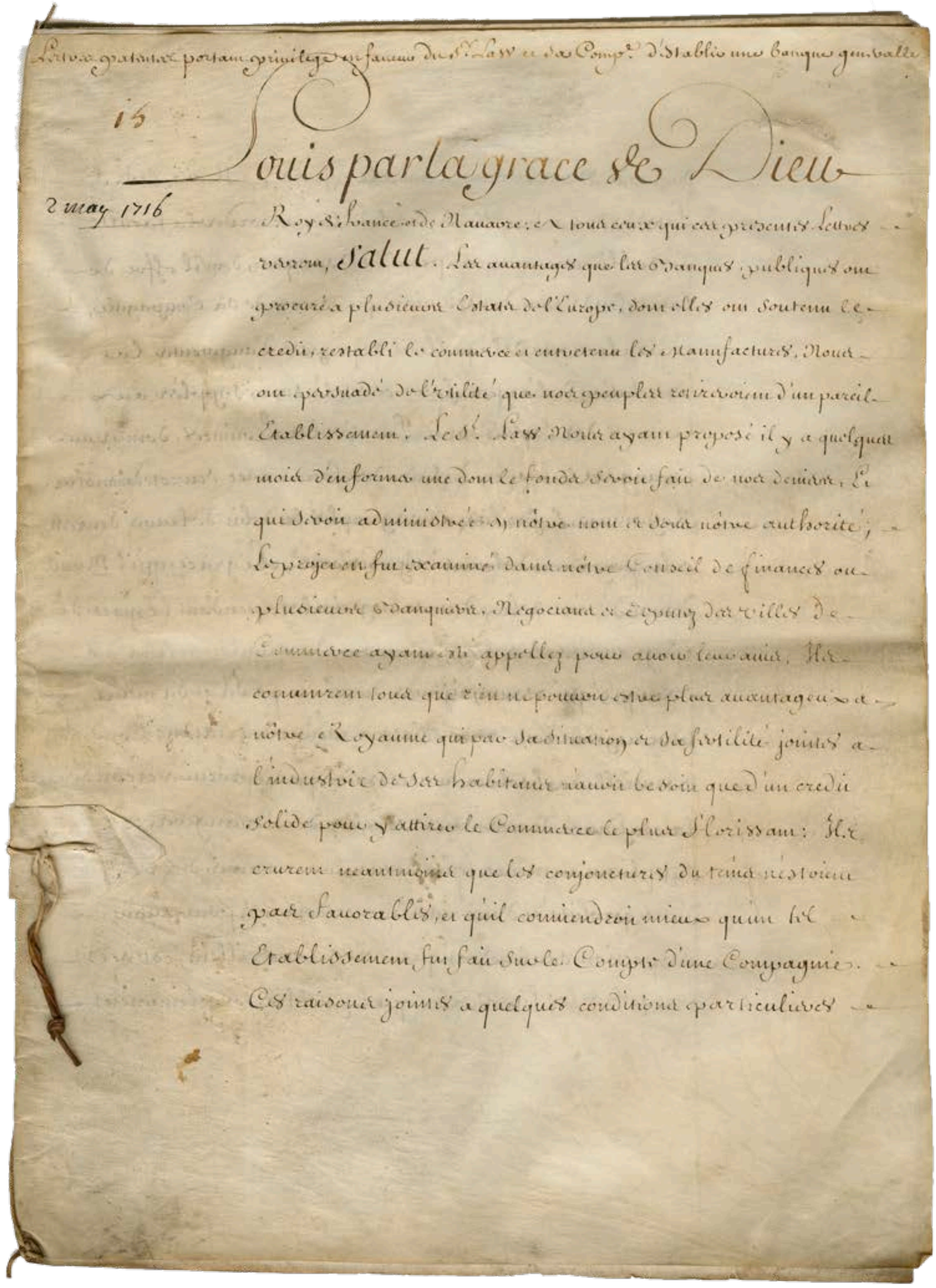
Engraving of John Law by Leonardus Schenk, 1720.

The year of Law's duel, the Bank of England was founded through subscription, its royal charter granting a note-issuing monopoly in return for reducing the crown's crippling debt. Such quasi-national banks had been proposed for many years; from abroad, Law followed these developments keenly. While in exile, he was introduced to Dutch and Italian banks far older and more sophisticated than any he had known at home: fueled by their countries' overseas trading companies (whose shares were exchanged like specie on the market), some of these banks' best customers were Europe's debt-riddled governments. Law, amassing his millions gambling in Europe's financial capitals, was circulating among (and snookering) precisely the sorts of

bank-backers—rich nobles and merchants—who typically underwrote loans to nation-states. He became immersed in the methodology of these banks and in the strategies of their financier class.

Law began to formulate his own bank proposals; he read some of his "competitors" but mostly disparaged them, claiming he could do better. Law's first published treatise, *Money and Trade Considered with a Proposal for Supplying the Nation with Money* (1705) proposed a land bank to address Scotland's chronic shortage of silver specie. Proposals for banks based on land value were not new, but Law's introduced concepts far ahead of their time. He was first to clearly define the law of supply and demand for goods in its modern sense; more impressive, he posited that *money itself* was subject to this law, insisting that the best way to ensure its stability would be to replace *all* silver coinage with paper notes, and concluding that an increased money supply would increase employment, production and trade surpluses. His plan rejected, Law continued to develop his ideas; his modified land-bank proposal for France in 1706–07, although rejected, was at least taken seriously.

When Law made this proposal to France, the largest country in Europe was in dire financial straits: paying for Louis XIV's lifestyle and endless wars had put the state deep in debt. The main source of revenue, a tax-and-fee-farming system inherited from medieval times, was utterly inefficient and corrupt. Yet during this period of national penury the Ministers of the Navy, Louis Phélypeaux, comte de Pontchartrain and his son Jérôme, decided France could wait no longer to establish a colony in the Lower Mississippi Valley, "Louisiana," which René-Robert Cavelier de La Salle had claimed for the king in 1682.


Lettres patentes portant privilege en faveur du Sr Law et sa Compe. d'Establir une Banque generalle

15

Louis par la grace de Dieu

2 may 1716

Roy de France et de Navarre: a tous ceux qui ces presentes lettres verront, Salut. Les avantages que les banques publiques ont procuré a plusieurs Estats de l'Europe, dont elles ont soutenu le credit, restabli le commerce et entretenu les manufactures, nous ont persuadé de l'utilité que nos peuples retireroient d'un pareil Etablissement. Le Sr. Law nous ayant proposé il y a quelques mois d'en former une dont le fonds seroit fait de nos deniers, et qui seroit administrée en notre nom et sous notre authorité; Le projet en fut examiné dans notre Conseil de finances ou plusieurs banquiers, Negociants et Deputez des villes de Commerce ayant esté appellez pour avoir leur avis, Ils convinrent tous que rien ne pouvoit estre plus avantageux a notre Royaume qui par sa situation et sa fertilité joints a l'industrie de ses habitans n'avoit besoin que d'un credit solide pour y attirer le Commerce le plus florissant: Ils crurent neantmoins que les conjonctures du tems n'estoient pas favorables, et qu'il conviendroit mieux qu'un tel Etablissement fut fait sur le Compte d'une Compagnie. Ces raisons joints a quelques conditions particulieres

Manuscript letters patent in favor of Mr. Law and his Company, establishing a general bank, May 2, 1716.

Expeditions began in 1698, and by 1702 there was a primary settlement at Mobile. But over the next decade, colonists—never more than a couple of hundred, spread thin along the Gulf Coast—had to compete with the War of the Spanish Succession for funding. French naval officers were so underpaid that some looted their supply ships bound for Mobile. Poverty there was endemic and desertions were common, soldiers routinely being embedded with local tribes to avoid starvation. Yet, though barely able to provide subsistence for the miniscule colony, France still expected prodigious results: controlling the Mississippi River and its trade, halting British colonial expansion into the Illinois Country.

In 1712 the government, still at war with England and deeming even its shoestring budget for the colony too great a burden, granted a trade monopoly for a "Company of Louisiana" to the king's financial councilor, Antoine Crozat. This wealthy financier of overseas trade seemed the perfect fit to energize the colony. But the crown, typically, reneged on funding military resources, and Crozat got stuck with the bills. To offset this, Crozat raised the prices soldiers and colonists paid for their meager supplies, and was reviled by them for it.

When in 1712 Law made his next proposal, for Turin, his theories had evolved: it was not for a land bank, but for one modeled on the Bank of England, which, with assistance from the East India and South Seas companies, had successfully managed that country's war-induced debt. Although rejected, it prefigured his second proposal for France, a national bank which would a) increase the money supply with paper currency, b) convert

Rue Quincampoix, the "Exchange Alley" of Paris, from *The Great Mirror of Folly,* 1720.

the country's debt into actionable shares and c) eliminate the tax-farms and their capital-immobilizing annuities.

This plan was in fact favored by Louis XIV in 1715, but on September 1 that year, the monarch died. His nephew Philippe II, duc d'Orléans, not the unanimous choice as regent for five-year-old Louis XV, took several months to secure power. Once he did, he made some initially welcomed efforts at reform and encouraged fresh ideas to solve the debt problem. Seizing the opportunity Law, with his charm and his impressive command of facts and figures, worked his way fully into Philippe's confidence, and the Regency Council finally accepted his proposal for a bank—just not the one he wanted.

The tax-farming nobility and traditional financiers who profited from France's dysfunctional revenue structure were a force in *Parlement*, and naturally opposed a system promising to eliminate their livelihood. So on May 2, 1716, Law was granted letters patent for a *private*, note-issuing bank, the *Banque Générale* of Paris. Its start-up capital of six million ₶ was not enough to tackle the national debt, which stood at over two billion ₶, but it gave Law the chance to put theory into practice. The bank sold 1,200 shares at 5,000 ₶. Three-fourths of payment had to be made in *billets d'état*, treasury notes into which France's various instruments of floating debt, some 600 million ₶ worth, had been devalued (to a third that sum) and consolidated in 1715.

If successful, the bank could at least retire 4.5 million ₶ of state debt. However, it was initially derided for its size and inscrutable business model: no fees for exchanging foreign currency? But this and other perks attracted wealthy depositors, as did especially its guaranteed one-to-one exchange rate, in specie for its bank notes, protecting them from the state's unpredictable currency devaluations. Law proved an able banker; by October 1716, the Treasury would only accept his bank's notes for tax payments, making them, in effect, legal currency. As the Regent funneled his own money and the state's business through the bank, he not only ensured its success, but paved the way for the central bank required by Law's System.

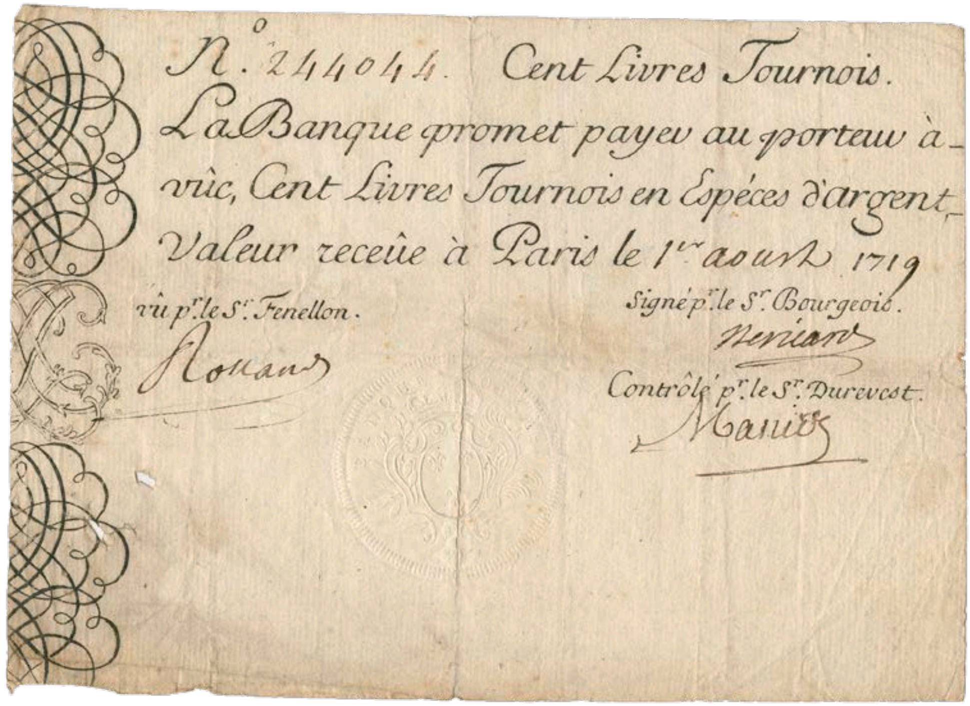
In January 1717, Crozat, unable to make a profit on Louisiana, renounced his monopoly in return for the Treasury's forgiving a large portion of his 6.6 million ₶ tax bill. But in March he proposed a new trading company. Whether inspired by the Bank of England, by Law's *Banque Générale*, or both, Crozat's company would issue 500 shares worth 1.5 million ₶, payable in *billets d'état*: a bit of France's floating debt could be exchanged for shares in its threadbare colony.

The Regency Council embraced the concept, but lacked financing and expertise. As 1717 dragged on the Council tinkered with Crozat's plan, finally asking Law—now respected for his bank's help with state finances—to buy a large number of shares. Needing the company for the next phase of his System, Law countered with his own proposal, differing from Crozat's in one essential feature: his company would raise *100* million ₶ in capital. In August, letters patent were issued for the "Company of the West," with Law, and Crozat in name only, as financial directors; from September 14–24, more than 28 million ₶ in *mères* ("mother" shares) were sold.

Buying was fueled by growing confidence in Law's abilities; by the Regent's and Law's substantial purchases; by allowing purchase on credit; and above all, by the desire of those who held *billets d'état* to unload them. *Billets* were discounted 60 to 70% on the market—investors could buy a 500 ₶ *mère* for a third of that value in *billets*, and if Law ran the Company as well as his bank, dividends on shares would far outweigh interest on *billets*.

Treasury delays in issuing *billets d'état* hindered purchases, and not until December 1718 was full capitalization achieved. In spite of this, the Company forged ahead with its plans for Louisiana, possibly using Law's personal funds. Already in September 1717 it had sold land concessions, some near a place it dubbed "New Orleans." Mobile and Biloxi had been stop-gaps for guarding the Mississippi, but exploiting the river's trade required a port *on* the river. During the lean years, only commandant (later governor) Jean-Baptiste Le Moyne de Bienville's genius at Indian relations had kept the colony alive. Now he chose an ancient Native trading site near the Gulf, easy to defend and a short portage to the lake (Pontchartrain). By May 1718, Bienville's men were clearing land and building huts on what would become the French Quarter. A simple beginning, but one 20 years in the making, and only happening *at all* thanks to the existence of Law's Company—which in its first 16 months alone brought more ships to Louisiana than Crozat's had in nearly six years.

January 1719 saw the next step in Law's System: the *Banque Générale* became the *Banque Royale*, answerable only to the Regent. In June, with Company share prices lagging, Law engineered a merger with the companies of the Indies, of China and of Africa. However, as these were all in debt, Law raised 75 million ₶ by issuing a second and third round of shares in June and July for his consolidated *Compagnie des Indes*: the *filles* (daughters) and *petites-filles* (granddaughters) were payable in currency (not *billets*) and could only be bought (or re-sold) by holders of *mères*. Over the next six months, as the price of *mères* rose to over 50 times their original cost, those most heavily invested in them—including Law, the Regent and their backers at court—saw their wealth increase spectacularly, and the term "millionaire" was coined to describe these *Mississippians*.



Banque Royale de France, 100-livre note, August 1719.

The Historic New Orleans Collection, 2001-47-L

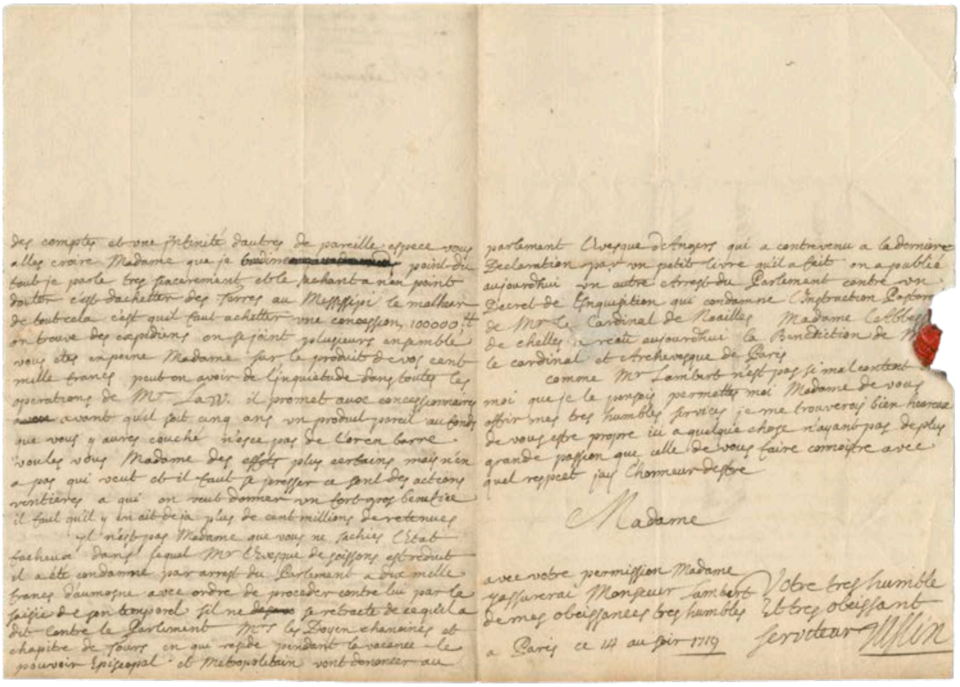
When the Company issued further rounds of shares in the fall, buying grew to a frenzy. Law, to ensure adequate liquidity, had since January let the *Banque Royale* issue several billion *livres* in new bank notes. Some of this issuance was hidden from *Parlement* by the Regent, and some from the Regent by Law, whose self-confident gambler's nature was showing. Literally wagering on his System, he made "side-bets" worth millions of *livres* with British counterparts—which he would lose—that his "Mississippi Company" would outperform the East India Company—which it did not.

To prop up the System, Law had flooded France with far more paper currency than the real economy could handle, and inflation was becoming rampant. But for the moment, seeing only bulls in the market, Law offered in August 1719 to take over the entire national debt in return for control of the tax-farms—depriving the tax-farming nobility of their income, as they had feared.

A decree on December 1, 1719 replaced most specie with bank notes; the next day Company shares peaked at 10,025 ₶, but then began a slow decline—some big investors had begun cashing out. On December 30, a Company office was opened in Paris to trade shares at prices fixed by the *Banque Royale*, steadying the market. On January 5, 1720, Law was named Controller-General of Finances, in effect prime minister of France; three days later shares peaked again, at 10,100 ₶. But rumors of disease, famine and failed concessions in Louisiana were reaching Paris; when the Company trading-office closed in February share prices fell again, losing almost 20% in one week.

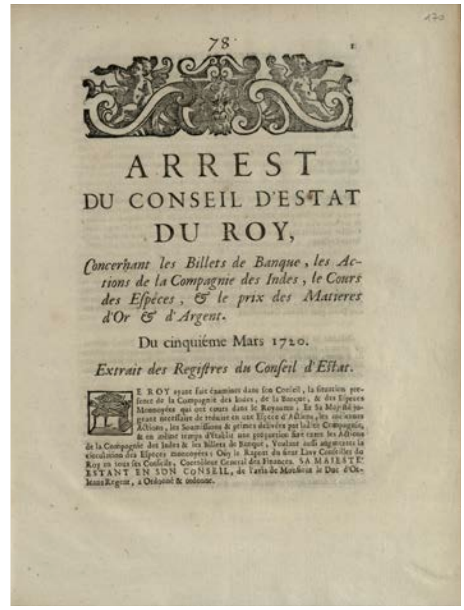
With investors fuming, Law again tried to put on the brakes: a decree of March 5 re-opened the share-trading office, guaranteeing to buy at 9,000 ₶. But over the previous months the public had seen, in an attempt to bolster the System, so many decrees and counter-decrees micromanaging monetary policy—gold and silver were in, gold and silver were out—it seemed a return to Louis XIV's feckless economy, and Law's guarantee was not trusted. Investors had lost confidence, and the frantic share sell-offs and bank note cashing that ensued led to panic and violence in the streets of Paris, which had a deep psychological impact on the Regency. Law's many enemies at court—the tax-farmers, financiers and others—used the emerging cracks in his System (which they themselves intentionally exacerbated) to convince the Regent it could not be sustained.

The remainder of 1720 saw a steady decline in Company share prices and in



The Historic New Orleans Collection, 2018.0194.3

Valsin informs Mme. Lambert that buying a concession in Louisiana—for 100,000 ₶ — is a safe way to invest her money, September 14, 1719.



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ARREST DU CONSEIL D'ESTAT DU ROY,

Concernant les Billets de Banque, les Actions de la Compagnie des Indes, le Cours des Espéces, & le prix des Matieres d'Or & d'Argent.

Du cinquiéme Mars 1720.

Extrait des Registres du Conseil d'Estat.

The Historic New Orleans Collection, acquisition made possible in part by the Clarisse Claiborne Grima Fund and the Boyd Cruise Fund, 2010.0158.18

Decree declaring that the central bank will buy Company of the Indies shares at 9000 ₶, March 5, 1720.

the value of bank notes. Law was arrested, then re-instated, but by year's end had to flee the country. A series of decrees gradually dismantled the System and returned France to its old, inefficient revenue structure: tax-farms, fee-farms and annuities. Better the devil you know…

Epilogue

Considerable fortunes—some lasting—were made investing in the Mississippi System; the thousands of wealthy and near-wealthy families who bought in late and paid most for shares were hardest hit by the Bubble's collapse—like Law, they had gambled big and lost big—but their investments had kept the boom going, allowing France's underperforming economy, for a time, to greatly expand. The increased money supply and concurrent absorption of state debt had freed the Regency to do some long-overdue housekeeping, including upgrading the Navy's fleets and personnel, which were essential for the survival of France's colonies.

As for the *Compagnie des Indes*, even Law's enemies realized its success could help dig the state out from under the Bubble's collapse. It was reorganized and absolved of the central bank's debt; it retained its fleet and its trade monopoly in Louisiana, bringing thousands of colonists and enslaved African workers to its shores over the next decade. New Orleans's strategic and commercial importance to France was now on display; it would not be abandoned—in fact, it would grow into a city and soon become capital of the colony. $

Howard Margot is a curator at The Historic New Orleans Collection (THNOC), a museum, research center and publisher dedicated to preserving the history and culture of New Orleans and the Gulf South.

Notes

1. There *is* a Law Street in New Orleans, but the name refers to jurisprudence.
2. The *livre tournois* was worth almost one-fifteenth of a pound sterling. The actual symbol, ₶, was often rendered in manuscripts with a simple hashtag, #.

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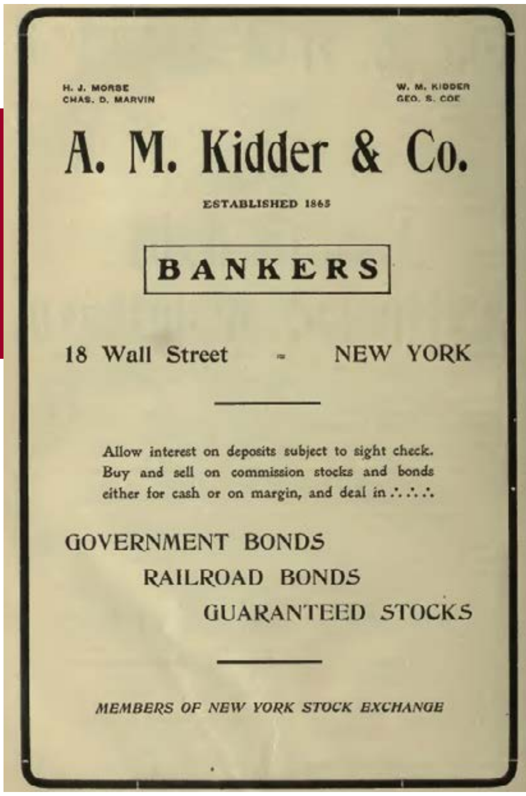


Collection of the Museum of American Finance

WHERE ARE THEY NOW?

A.M. Kidder & Co.

Founded in New York in 1872

By Susie J. Pak

A New Hampshire native, Amos Mansfield Kidder (1837–1903) was the son of a farmer. After going to high school in Massachusetts, Kidder found work as a clerk in a mercantile firm and a bank teller in Boston. Later he became a director in the Boston and Lynn Railway. In 1865, Kidder moved to Brooklyn and became a partner in the firm of Kidder, Hinckley & Warren. When that firm was dissolved on May 15, 1865, Warren, Kidder & Co. was founded with partners W.H. Warren, A.M. Kidder and Dura Warren. When Warren, Kidder & Co. was dissolved in 1870, Amos Kidder went into business for himself, founding the firm of A.M. Kidder & Co. in 1872. The timing of the founding of his namesake firm was inopportune. During the Panic of 1873, A.M. Kidder & Co. ran into trouble and was suspended.

Kidder prevailed, however, and his firm was able to recover from the panic. During its early history, A.M. Kidder & Co. was an active member of the Wall Street community. According to *The New York Times*, "During the Equitable fire the office was used by the Fire Department to combat the flames." Its customers' room at 18 Wall Street was "for many years… the rendezvous of Wall Street's expert chess players after the close of the market each day." By 1886, Kidder began to withdraw from the firm's daily activities due to his health, and in 1891, he retired from business and eventually resettled in Massachusetts.

Ad for A.M. Kidder & Co., bankers, located at 18 Wall Street, New York City from the 1901 *Poor's Manual.*

Kidder and his wife, the former Lucy Noyes, had two children. Their daughter, Lucy W. Kidder, married Edwin M. Bulkley, a partner in the firm of Spencer, Trask & Co. Their son, William Magee Kidder, studied at Amherst College, but he left school in 1886 and went to work on Wall Street. In 1888, he joined the family firm and became a member of the NYSE. In 1902, while William was in England on a European holiday with his family, however, he unexpectedly died.

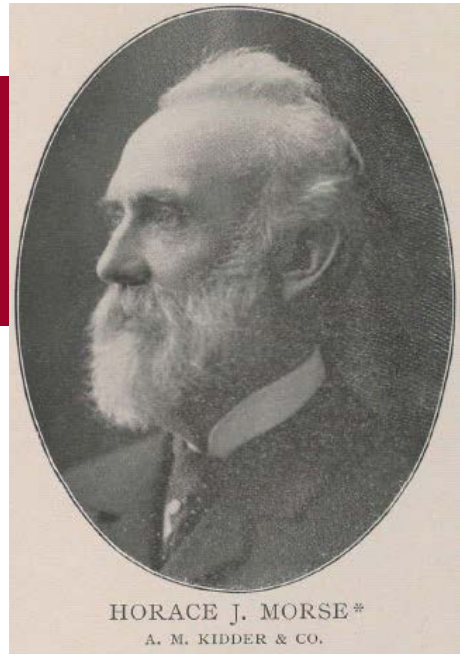
In 1903, the year after his son died, Amos M. Kidder also passed away, and Horace J. Morse became the senior partner of the firm. A native of Ohio and the son of a banker, Morse had joined A.M. Kidder & Co. in 1879. During the Civil War, he served as Quartermaster General and later the Adjutant General of Connecticut. In 1868, he moved to New York and settled in Brooklyn, where he became one of the founders of the People's Trust Co. of Brooklyn.

Morse remained the senior partner until his death in 1931, but during his tenure, the third generation of Amos Kidder's family joined the firm. William Magee Kidder's son, Amos M. Kidder II, a 1915 Princeton graduate, joined the firm after serving as a lieutenant in World War I. Kidder II became a member of the NYSE in 1923, and he was the firm's floor partner before World War II, when he served in the Army Air Corps.

In the 1930s, Kidder II also served as the mayor and police commissioner of Tenafly, NJ. His son, Amos M. "Bud" Kidder III, studied at the Hill School in Pennsylvania and Wesleyan University before also serving in World War II. Bud did not, however, join the family firm. He went into the business of marketing and advertising, starting at the firm of Doremus & Co. in 1946. His father, Amos Kidder II, also did not remain with the family firm. In the 1950s, Kidder II became associated with Reynolds & Co. and later F.S. Moseley & Co. The Kidder firm was still a family firm, but in practice, it was led by Horace Morse's family until the start of World War II.

After Horace J. Morse's death in 1931, his son, Charles L. Morse, succeeded him as senior partner. An Amherst graduate, Charles L. Morse joined A.M. Kidder & Co. in 1903. In 1932, the year after Charles succeeded his father, the firm became a limited partnership.

That year, Charles U. Bay joined the firm as a special partner. The son of John



Collection of the Museum of American Finance

Portraits of William M. Kidder and Horace J. Morse in *Kings View of the New York Stock Exchange.*

Christopher Bay, a scholar, mathematician and Norwegian immigrant, Charles Ulrick Bay was born in Rensselaer, NY. An industrialist, Bay founded the Bay Company, a surgical and medical supplies manufacturer, with his brother, Frederick. In 1933, while a partner at A.M. Kidder, he also founded the Bay Petroleum Company in 1935 and the American Export Air Lines in 1937. In 1938, he helped to organize A.M. Kidder's takeover of Jenks, Gwynne & Co., a well-known stock, cotton and grain brokerage founded in 1913.

In 1940, Bay became senior partner of A.M. Kidder & Co. In 1946, however, he became the ambassador to Norway under President Harry Truman and took a leave of absence from the firm until 1953. When Bay died in 1955, he owned about 71% of the firm's stock. In 1956, his wife, Josephine Perfect Bay, assumed his position as the president and chairman of A.M. Kidder & Co., Inc. because the New York Stock Exchange rules required any stockholder who owned "more than 45% of a member company's shares" to either sell or "take an active part in the firm." Under Josephine Bay, A.M. Kidder & Co. had the distinction of being the only investment house in the top 207 firms of the syndicate of the Ford Motor Company initial public offering led by a woman.

Born in Iowa in 1900, Josephine Holt Perfect Bay was raised in Brooklyn. The daughter of Otis Lincoln Perfect, a real estate broker, she was a 1916 graduate of the Brooklyn Heights Seminary and studied at Colorado College at Colorado Springs. She and Charles U. Bay married in 1942. In 1959, she remarried to Capton Michael Paul, a widower and a native of Ulanvdinsk, Outer Mongolia. Paul's father, Michael A. Iogolevitch, had been the Surgeon General under Czar Nicholas. A trained violinist, Paul immigrated to the United States in 1917. In 1919, he opened a branch bank in Harbin, Manchuria for the National City Bank of New York after meeting Frank A. Vanderlip, the bank's president. In 1922, he started his own firm dealing in precious stones and art. Eventually he settled in Texas, where he entered the oil business. He joined the NYSE in 1933.

Josephine Bay Paul died in 1962. The following year, C. Michael Paul—then the president, chairman and chief stockholder of A.M. Kidder & Co., Inc.—decided to sell the firm to Reynolds & Co. and Francis I. duPont & Co. Paul said, "Since I have had no one to share the burden of running the firm as I had when Mrs. Paul was alive, I thought it best to hand it over to others. I want to have more free time for all my activities—the medical and educational philanthropies with which I'm connected and also my bowling and fishing."

According to Paul, Reynolds and duPont approached him about the sale, which was for cash. Paul said that he did not want to devote the time necessary to expand the business and maintain its quality, so he decided to sell.

According to Vartanig G. Vartan, Reynolds & Co. and Francis I. duPont & Co. were part of a larger merger trend for which there were "two prime reasons" in the securities business: "the chief one being the drive for greater capital…. Brokerage firms need capital to carry customer margin accounts, to conduct their underwriting business, to pay for expanded research activities, and to air-condition their offices." The second reason was "personal or estate acquisitions," like C. Michael Paul's personal circumstances.

In the post-war period, A.M. Kidder & Co. had established its reputation for successfully selling mutual funds in Florida. In 1947, it bought 10 offices of another brokerage house in Florida. By 1961, it had 22 offices in Florida and realized "about 85% of its total mutual fund volume from the Sunshine State." *The New York Times* reported, "Under terms of the acquisition agreement, Kidder's assets [were] divided equally between Reynolds and duPont. Reynolds' half [was] made up of 26 of Kidder's offices, and duPont's [was] the remaining 13." The Florida offices were taken over by Reynolds & Co., which were not represented there and "said that it was interested in pursuing mutual fund sales in the Southern state." With that sale, the name of A.M. Kidder & Co. was lost to history. $

Susie J. Pak is an Associate Professor in the Department of History at St. John's University (New York). A graduate of Dartmouth College and Cornell University, she is the author of Gentlemen Bankers: The World of J.P. Morgan *(Harvard University Press), a Trustee of the Business History Conference, co-chair of the Columbia University Economic History Seminar and a member of the editorial advisory board of the* Business History Review. *She is also a member of the* Financial History *editorial board.*

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TRIVIA QUIZ

HOW MUCH DO YOU KNOW ABOUT FINANCIAL HISTORY?

1. What crusading educator and brilliant economist together led the Black Cabinet during Franklin Delano Roosevelt's administration?

2. There is much debate about the penny being removed from circulation in the next few years. What would be required for that to happen?

3. At what school did both Benjamin Graham and his partner, David Dodd, teach their security analysis classes?

4. John Law, the Scottish gambler and economic theorist responsible for one of history's greatest financial bubbles, can also be considered a little-known founder of which US city?

5. Under which early US President's leadership did the government distribute federal land grants for the construction of roads and canals, spending almost $3 million on internal improvements?

6. Which three US Presidents were impeached, resulting in varying impacts on the financial markets?

7. Which was the only investment house of the top 207 firms of the Ford Motor Company IPO syndicate to be led by a woman?

8. Which denomination of US currency is the most commonly used within the United States and represents about 23% of all currency in circulation?

9. What company made history in September 2014 by becoming the largest IPO on the New York Stock Exchange?

10. Which US state introduced sales tax in 1921—12 years before 11 other states followed suit?

1. Mary McLeod Bethune and Robert Weaver **2.** Congressional approval **3.** Columbia University **4.** New Orleans **5.** James Monroe **6.** Andrew Johnson, Bill Clinton and Donald Trump **7.** A.M. Kidder **8.** $20 bill **9.** Alibaba Group **10.** West Virginia